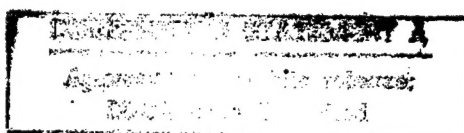


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# China Report

ECONOMIC AFFAIRS

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5 April 1985

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PROVINCIAL AFFAIRS

YUNNAN'S AGRICULTURAL, INDUSTRIAL DEVELOPMENT DISCUSSED

Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese  
No 8, 20 Aug 84 pp 46-50

[Article by Liu Wenwei [0491 2429 5588] of the Yunnan Provincial Institute of Economic Research: "We Must Emphasize Agriculture as the Strategic Focus in Developing Yunnan's Economy"]

[Text] Yunnan Province is an economically backward region. Since liberation, the party Central Committee has formulated a series of special economic policies for the border and nationalities region in Yunnan Province and has supported them with a large number of manpower, material resources and financial resources. These attempts have played an important role in bringing prosperity to the economy of the border and minority nationalities region and in promoting the development of the national economy throughout the province. However, to narrow the gap between itself and the average standard of economic development throughout the country, Yunnan must, under the guidance of the overall strategic principle of economic and social development throughout the country and in light of the present level of economic and social development and the situation of resources of the province, still select a correct approach which will enable the economy of this region to develop at a faster speed than the average speed of the whole country. This approach should be to focus on developing agriculture and, revolving around agriculture, develop light industry and heavy industry in a harmonious manner.

Why do we say that this is a correct approach?

A. Yunnan's agriculture is backward, and yet, in our present economic work, several major problems can be resolved only through emphasizing agricultural development. At present, we are faced with many economic problems, the most important ones being:

1. The Problem of Improvement of the People's Standard of Living: Roughly 85 percent of the means of livelihood of the people of Yunnan Province comes from agriculture. The development of agriculture will play a decisive role to satisfying the needs of the people's standard of living. For a long time in the past, we have neglected the development of agriculture. Agricultural sideline products are not only few in variety but insufficient in quantity. Thus, for a long time, the people were forced to remain at a relatively low

level of material consumption. Since the Third Plenum of the 11th CPC Central Committee, we have strengthened agricultural work and have scored bumper harvests in agriculture for years on end. However, the level of agricultural production is still low. In 1982, the per capita output of major agricultural products throughout the province was as follows: 576 jin of grain, 8.4 jin of oil-bearing crops, 24 jin of meat, 1 jin of aquatic products and 8.6 jin of fruits. The per capita gross value of agricultural output [GVAO] was only 188.36 yuan. At present, even if we have guaranteed the minimum basic livelihood necessities of the people, a state of considerable tension still exists frequently between supply and demand, and we still rely on allocation from other places to ease the contradiction.

Even in the future, the problem of feeding the people is still a matter of foremost concern. After we have resolved the problem of having enough to eat, the people will ask for having better meals. For instance, they will ask for overall nutritious food that will be adequate for strengthening their physical and mental development. They will also ask for a variety of delicious and enjoyable food. Thus, at present or in the future, the development of agriculture is still the most important task in all kinds of economic work. Only by emphasizing this matter properly can we stimulate the persistent fervor of the people to actively participate in other activities and do other types of work well.

2. The Problem of Quadrupling the Gross Value of Industrial and Agricultural Output [GVIAO] and Enabling the People's Consumption to Reach the Level of Comfort: the present GVAO of Yunnan Province constitutes roughly 40 percent of its GVIAO. Whether or not agricultural production can progress will have an extremely great impact on the quadrupling of the GVIAO. Currently, the basis for agricultural production is relatively poor, with 72 percent of the arable land being in the mountainous regions. The acreage under effective irrigation constitutes only 23 percent of the total acreage of arable land. We have a backward culture, a low level of science and technology, inaccessible communications, insufficient energy supply, weak ecology and numerable factors restricting the development of agriculture. Thus, only by paying special attention to emphasizing agriculture and striving to reach a relatively high speed of sustained and steady development of agriculture can we guarantee the realization of the goal of quadrupling the output value.

Currently, 84 percent of the value of light industrial output in Yunnan Province was provided by agriculture in the form of raw materials for processing. The growth of the value of light industrial output is governed by the speed of agricultural development. Such a situation will not change easily in a considerable period of time in the future. This determines the fact that the development of light industry in Yunnan Province relies primarily on the development of agriculture. The faster the agricultural development, the faster the development of light industry.

The speed and scale of development of heavy industry in Yunnan Province are also conditioned by the speed of agricultural development. The development of heavy industry must involve large amounts of investment. Currently, the financial revenue comes from agriculture both directly and indirectly, which

constitutes roughly 75 percent of the total. Agriculture is the main channel of financial revenue. Nor will this situation change radically in the near future. Thus, in order to enable heavy industry to develop faster, we must enable agriculture to develop faster so as to bring about a larger amount of accumulation.

By the year 2000, the GVIAO throughout the country will reach 2.8 trillion yuan. Population will be controlled at 1.2 billion. The per capita GVIAO will be 2,400 yuan and the people's consumption will reach a level of comfort. Even if Yunnan Province quadruples its GVIAO, that is, increases from 12 billion yuan to 48 billion yuan, and controls the population at 40 million, the per capita output value will only be 1,200 yuan, half that of the average level throughout the country. To enable the people's consumption to reach a level of comfort, the only approach is to develop production. At present, the rural residents constitute 89 percent of the total population. Only a few of them have moved to the cities to take part in nonagricultural labor. Most still remain in the rural areas, primarily taking part in labor involving agricultural production. Thus, most of the residents of Yunnan Province will still take this approach of developing agricultural production through agricultural labor to increase economic income and raise their level of consumption.

3. The Problem of the Proportionate and Harmonious Development of the Various Major Sectors of the National Economy: The situation of proportional disharmony among the various major sectors of the national economy in Yunnan Province is serious. The key is the slow development of agriculture, which fails to meet the needs of economic and social development. After some 30 years, heavy industry in our province has increased 22-fold, light industry 13.4-fold, while agriculture has only doubled, a portion of which has been consumed by the population, which has increased 90 percent. For instance, in 1981, the commodity rate of agricultural sideline products throughout the province was only 25.5 percent. The commodities yielded by each person engaged in agriculture was only 52.5 yuan. The volume of procurement of agricultural sideline products by the commercial sector only constituted 40 percent of the total volume of procurement. The situation of a backward agriculture has impeded the speed of growth of the means of livelihood, financial revenue and the domestic and international trade volume; has limited the market capacity of industrial products and the source of industrial labor force. As a result, it has basically limited industrial development and the scale of construction, and has imposed restrictions on the benign cycle of the national economy.

In the early days since the nation's founding, in light of our province's former poor industrial basis, it was entirely necessary to develop heavy industry. However, development of heavy industry has gone too far ahead of that of agriculture and has far surpassed the growth of the production of the means of livelihood. This has caused the macroeconomic results in economic construction to become poorer and poorer, and has brought about difficulties for the development of the entire economy and the improvement of the people's standard of living. Thus, to further readjust the economic structure of our province and to reestablish a benign cycle in our national

economy, the most important and most urgent work at the present stage is to accelerate the development of agriculture. In the last 2 years, our province has scored obvious results in the work of readjusting the national economy. The speed of development in agriculture and light industry has been accelerated. The proportion of the value of heavy industrial output in the GVIAO has dropped, and the rate of growth of the GVIAO has surpassed that required for quadrupling the gross output value in 20 years. However, this good change is only the beginning. Our achievements are still weak. Only by continuously striving to promote agriculture and at the same time paying attention to developing light industry which uses agricultural sideline products as the raw materials can we accomplish our task of economic readjustment in a down-to-earth manner.

4. The Problem of Launching Regional Economic and Technological Cooperation: An important approach to promoting the economic and technological development of Yunnan Province is to bring in development funds, advanced technology and management experiences from the advanced regions, especially the large coastal cities and from all over the world. Although we emphasize the style of socialist cooperation at home, we should still regard the principle of mutual benefit as the material basis for launching this type of interregional cooperation. In the past, we have entered into many talks with very little success. The basic reason lies in our weak material base. In 1981, the commercial department in Yunnan Province brought in a total of 1.71 billion yuan of commodities from outside the province, but only sent out 790 million yuan of commodities. The discrepancy between importing and exporting was 54 percent. We should not always "import in excess of export" over a long period of time, export a small volume of commodities and ask support from other places. Other people will lose interest in entering into cooperation with us and will take little initiative to do so. We should promote our superior products and strive to balance the volume of commodities we bring in and the volume we send out. We are not in a position to promote high- and medium-grade consumer products. For a considerable period to come, we still will not be able to compete with the advanced regions. We have the resources for promoting mining products. However, we will still not be able to increase output by a wide margin in a short period of time. What we can make an issue of is the development of agricultural sideline products and other processing products. For instance, we can develop such superior products as forestry products, food and fur products, natural rubber, medicinal herbs and tropical crops. This way, we will have a solid material basis for launching economic and technological cooperation activities with the advanced regions on a broad scale.

B. Currently, Yunnan is a province which takes agriculture as the key. We should first of all strive to enable our per capita volume of agricultural output to catch up with the average level throughout the country. This will be our first step in narrowing the regional gap. In 1980, the GVAO in Yunnan was 5.5 billion yuan. The per capita value throughout the province was 173.3 yuan. At an annual rate of growth of roughly 5 percent nationwide, by the year 2000, the GVAO will reach roughly 600 billion yuan. With the population controlled at 1.2 billion, the per capita value will be 500 yuan. According to this criterion, with the population of Yunnan Province controlled

at 40 million people, the goal for the GVAO will be 20 billion yuan, which means quadrupling its 1980 value, with an annual average increase of higher than 7 percent.

People generally believe that great effort is needed to develop agriculture. Therefore, the rate of growth cannot be too fast, and an average annual growth at 4 to 5 percent is already very high. Some comrades hold that the rate of growth for agriculture cannot surpass 7 percent. This is to say, we must not quadruple our agricultural output. If we quadruple our agricultural output, then, according to the ratio of the rate of growth in agriculture and the rate of growth in industry, which is 1:1.5, the annual increase for industry will be 10.8 percent. Thus the issue is not quadrupling GVIAO, but increasing it even more than that, which is impossible.

These arguments may be correct with reference to the whole country or other regions. With reference to Yunnan Province, which still takes agriculture as the key, the situation is different. In fact, it is possible to strive to quadruple the value of agricultural output, which will enable the GVIAO to develop at a higher average speed than the whole country, thereby narrowing the gap between the province and the average level of development throughout the country. In fact, it is the only path we can strive for.

The question here is, is it possible to develop Yunnan's agriculture at the speed of 7 percent? To answer this question, we must first of all crudely analyze the history and present situation of agricultural development in Yunnan Province.

In the years between 1950 and 1981, the GVAO in Yunnan Province increased two-fold. The annual average speed of growth was 4 percent. As everyone knows, for a long time, our country's economic work has suffered from the interference of the "Leftist" mistakes. Through the years, agricultural production has gone through major upheavals. For instance, the most chaotic periods of the "Great Leap Forward" and the "Great Cultural Revolution," and the years immediately following the smashing of the "gang of four," were years of upheaval which were unfavorable to the development of agricultural production. The results were reflected by the average rate of growth of the GVAO, which was 1.2 percent for the "Second 5-Year Plan," 3 percent for the "Third 5-Year Plan" and only 1.6 percent in the "Fifth 5-Year Plan." Conversely, when the political situation was more stable, and when there was fewer erroneous interferences to agricultural production, agriculture made advances. For instance, during the 3 years of economic revival in the early days after liberation, because Yunnan is situated in a border region, the various democratic reform movements developed later there than in the interior and agricultural productive forces were still not sufficiently liberated. Nevertheless, agriculture developed very rapidly. The annual average rate of growth for the GVAO was 5 percent. During this period, the growth was 2.8 percent in 1950, 4.9 in 1951 and 7.3 percent in 1952, each year higher than the other. The "First 5-Year Plan" period was a relatively normal period for our country's economic development. The annual average rate of growth for the GVAO was 8.7 percent. During the period of economic readjustment from 1963 to 1965, the annual average rate for the 3 years was 6.5 percent.



From these historical analyses, we can see that agricultural development in Yunnan Province was carried out half the time during the major upheavals and half the time during relatively stable periods. Thus we have the basis to believe that the average growth in the last 31 years for Yunnan Province was 4 percent, which was not a normal speed, but rather an average speed despite major interferences and setbacks. We can therefore hypothesize that: Without the protracted and numerous "Leftist" interferences of the past 31 years, the rate of agricultural development will definitely be much higher than 4 percent. If we take as representative the average rate in the 8 years before 1958, which constituted the longest period of continuous stability, then, the normal speed of development of agriculture in Yunnan Province historically should be around 7 percent.

As regards the present situation, since the Third Plenum of the 11th CPC Central Committee, with the implementation in depth of the various principles and policies of the central authorities on rural work and the development of the rural economy, the rural areas of Yunnan Province have undergone great changes. Agricultural production has gradually embarked on a healthy road of development. The GVAO has risen year after year. In 1980 it was 7.1 percent, in 1981 it was 8.3 percent, and in 1982 it was 10.2 percent--all of them higher than 7 percent.

However, historically, the high rate of agricultural development often appeared after a period of low rates, somewhat with the character of a revival. In the next 20 years, can we maintain a sustained and stable rate of agricultural development? This requires some research. Furthermore, in the development and utilization of agricultural resources in the past, a phenomenon of abuse and wastefulness existed to a serious extent. Currently, we are faced with the so-called "10 major challenges" in agricultural production, which involve precisely the advantages and disadvantages of our past experience in paying attention only to the rate of development while ignoring the rational utilization of agricultural resources. Thus, an important aspect which requires research is the rational integration of high-speed agricultural production and the future impact of the utilization of resources.

These two aspects actually constitute one problem. That is, in studying rates of agricultural development, should we proceed from the concept of traditional agriculture or should we proceed from the concept of modern agriculture? Similarly, with regard to the direction of agricultural development in the future, should we repeat traditional agriculture or should we advance toward modernization? In this sense, the high-speed development of agriculture signifies the increasing intensification of men's intervention with nature in disregard to long-term consequences. As a result, resources will dry up, agricultural disasters will be serious, and instability in the rate of development will inevitably appear. If we develop in the direction of a modern agriculture, then, in the course of modernization, the activities involving agricultural production will become more vigorous, affecting nature to a greater extent. The agricultural ecology will also enter into a benign cycle more quickly, and agricultural development will also move at a faster pace. The scope of increase in output will become more stable.



C. Only by properly focusing on agriculture can Yunnan promote industry and enable the GVIAO to develop at a faster pace than the average speed of growth throughout the country.

In accordance with the historical experiences in economic development both at home and abroad, some comrades foresee that when the growth rate in agriculture and the growth rate in industry take on the ratio of 1:1.5 or 1:2, then a balance between industry and agriculture will generally be attained. Reckoning at the 1:2 ratio, by the year 2000 the annual increase of our province's agriculture will be 7.2 percent. When the GVAO has increased from 5.5 billion yuan to 22 billion yuan, the annual increase of industry should be 14.4 percent. While the GVIAO should increase from 6.5 billion yuan to 95.8 billion yuan, the GVIAO should increase from 12 billion yuan to 117.8 billion yuan. Obviously, this cannot be attained. This is because Yunnan Province has a very weak basis for light and heavy industries. Therefore, we cannot bring about such a fast development. Our beginning point for the level of science and technology is also very low and especially unsuitable.

Reckoning at the 1:1.5 ratio, the rate of increase for industry will be 10.8 percent. By the year 2000, the GVAO will increase to 50.5 billion yuan, while the GVIAO will increase to 72.5 billion yuan. The annual average rate of growth for the GVIAO will be 9.4 percent, which is five times that of 1980. It appears that this goal can be realized through hard work. This is because, in the history of the economic development of Yunnan Province, the speed of industrial development has all along been faster. In the 31 years from 1950 to 1981, the annual average increase was 11.8 percent. Even if we start at 1953, by 1981, the annual average increase was still at 10.5 percent. The GVIAO registered an annual increase of 9.4 percent. In the first 5-Year Plan period, it reached 13.9 percent. As long as industry and agriculture develop harmoniously, this speed can be attained.

However, we must have a correct guiding principle in developing industry. The correct principle should be to develop industry in close integration with developing agriculture. We should revolve around agriculture in running industry and run industry in order to promote agriculture. This principle is the concrete manifestation of the objective law that the national economy must take agriculture as the foundation, and is the demand made by the law of movement of the productive forces itself. Thus, it is in accordance with Yunnan's reality.

In light of this principle, we must first of all develop the processing industry involving agricultural sideline products. This is because agricultural production involves scattered production activities. In developing the processing industry for agricultural sideline products, we can gather without delay the surplus products which are scattered among the peasants, process and package them, and send them to the market without delay. In this way, we can enable the value of agricultural labor to be acknowledged by society. In so doing, we can enable the peasants to recover the income for their labor without delay, eliminate the hardship involving selling all

kinds of products, gradually free them from the self-sufficient natural economic environment, and help stimulate the peasants' enthusiasm in production and accelerate the development of rural commodity production. At the same time, through serving agriculture, that light industry which uses agricultural sideline products as raw materials will also have the conditions for development on a full scale. We have suffered in the past because Yunnan did not attach importance to the processing industry for agricultural sideline products. Thus, in the new historical period, we should regard the development of the processing industry for agricultural sideline products as a basic task on the industrial front, and strive to change the ratio between the GVAO and the value of the light industry which takes agricultural sideline products as the raw materials from 1:0.5 at present to 1:1.5. If we do so, then, by the end of this century, through bringing into play the role of letting industry promote agriculture, we will have given effective support to quadrupling the GVAO by attaining the value of 22 billion yuan. At the same time, we will be able to guarantee the raw materials for attaining the value of 33 billion yuan of light industry output which uses agricultural sideline products as raw materials. The two items will total 55 billion yuan. Thus, it is possible to quadruple the GVIAO in Yunnan Province.

In terms of the law of movement of the productive forces themselves, at a certain stage of agricultural development, heavy industry will inevitably develop correspondingly. Agricultural modernization requires the latest technological equipment which will be provided by heavy industry. Without advanced technological equipment, we will not be able to realize agricultural modernization, and will also not be able to develop agriculture at high speed. Agricultural development not only calls for the corresponding development of heavy industry, but also gradually creates the conditions for the development of heavy industry to a new stage.

First of all, it will accumulate funds for the development of heavy industry. For instance, by the year 2000, the output value from agriculture and the processing of agricultural sideline products in Yunnan Province will have reached 55 billion yuan. According to the present ratio, the net output value will be roughly 30 billion yuan, with 14 billion yuan of financial revenue. This will be a rather sufficient fund for developing heavy industry. Not only that, the development of agriculture and the processing industry for agricultural sideline products will also enable the income of the local finances, local enterprises and masses of people to increase more rapidly. When a locality has solid financial strength, the state can initiate and organize the masses to pool funds together to set up regional public works, develop energy, communications, culture, education, health, science and technology, and urban construction. This will shoulder part of the financial expenses for the province and the state, and will conveniently concentrate funds, which will guarantee the smooth launching of the key projects.

Secondly, it will open up markets for heavy industrial products. Currently, the rural areas of Yunnan Province are still poor and there is a small market for heavy industrial products. In 1981, the amount of retail sales of agricultural means of production throughout the province only totaled 480

million yuan. With the development of agriculture, there are 60 million mu of arable land (according to satellite survey), 140 million mu of forest, and over 100 million mu of grassland throughout the province. If we invest in such a vast land for use in production, and develop the processing of agricultural sideline products, machinery equipment for storage and transportation and rural energy and construction business, there will be a market for over 10 billion yuan of heavy industrial products in the rural areas.

We should also study the structure and direction of development of heavy industry in Yunnan Province. At present, in implementing the task of readjusting the national economy, it is entirely correct to emphasize the direction of letting heavy industry arm agriculture and light industry and of carrying out technological transformation on heavy industry itself. As described above, the modernization of agriculture asks that heavy industry provide us with suitable advanced agricultural machinery, machinery for processing agricultural sideline products, motive power equipment, farm chemicals, chemical fertilizer, construction materials, transportation vehicles, machinery for animal husbandry and forestry machinery, and so forth. Heavy industry can promote the development of agriculture and light industry at a faster pace by equipping the latter two with advanced equipment. At the same time, in serving agriculture and light industry, heavy industry also opens up the future for its own development. A rough estimate shows that to quadruple agricultural output value and develop light industry in a corresponding manner, by the year 2000, heavy industry must increase at a speed of roughly more than 7 to 8 percent. That is to say, it should more than quadruple its output value by reaching 16 to 17 billion yuan before it can meet the needs of the development of the entire economy. Thus, in emphasizing agriculture, heavy industry will also develop.

Does it mean that we will not promote industrialization if we emphasize the development of agriculture? This is a misunderstanding. History has proved that it will not work especially if we believe that the correct road to industrialization means pursuing in a one-sided manner the high-speed growth of heavy industry and ignoring the development of agriculture. This theory fails to have guiding significance for Yunnan Province at the present stage of its economic development. The actual step of Yunnan's industrialization is precisely to attach importance to the development of agriculture, emphasize agriculture, and revolve around agriculture in running industry. The solution to the harmonious development among agriculture, light industry and heavy industry will guarantee industrialization. As stated above, Yunnan's economy should develop along the road of emphasizing the development of agriculture and the harmonious development among agriculture, light industry and heavy industry. By the year 2000, the GVIAO will reach 72 billion yuan, of which 22 billion yuan will be the value of agricultural output and 50 billion yuan will be the value of industrial output. The value of industrial output will constitute 70 percent of the gross value of industrial and agricultural output. Thus, we can see that this is a correct principle for us to realize.

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5 April 1985

## ECONOMIC DEVELOPMENT ZONES

## BRIEFS

JIANGSU INTERNATIONAL COMPANIES--Nanjing, 8 Mar (XINHUA)--Two international economic and technical development companies have been set up in the Jiangsu Province ports of Lianyungang and Nantong, provincial authorities said here today. The ports are both among the 14 coastal cities opened last year to foreign trade and investment. The Lianyungang company will handle imports for nine central and northwest China provinces and autonomous regions including Henan, Shaanxi, Qinghai and Xinjiang. Lianyungang is the coastal terminus of China's main east-west trunk railway. It is also a key outlet for exports from the nine provinces and regions. The Nantong company is the city's first import-export firm. It will also deal in banking, production, trade and services. The company plans to import funds, technologies and equipment. Both new businesses have been approved by the provincial government and the Ministry of Foreign Economic Relations and Trade in Beijing. [Text] [Beijing XINHUA in English 0242 GMT 8 Mar 85]

JOINT-VENTURE HOTEL IN DALIAN--Dalian, 26 Feb (XINHUA)--Work will begin in July on the first joint-venture hotel in the economic and technological development zone of Dalian, a major northeast China port in Liaoning Province. The 500-room hotel will be built jointly by the Qingda Economic and Trade Company from Daqing, China's largest oilfield, and Wah Kong Construction Co. Ltd. of Hong Kong. The hotel, scheduled to be completed in December 1986, will have such standard facilities as dining rooms, banquet hall, ballroom, bar, coffee shop, beauty parlor and shopping mall. All rooms will be air conditioned and furnished with closed-circuit television. Telex, telegraph and other communications facilities will be available. Construction will cost about \$HK100 million (about 30 million yuan), with the Daqing partner contributing 60 percent and the Hong Kong partner the balance. Dalian's 50-square-kilometer development zone has been designated open to external economic activities. The port was one of the 14 coastal cities in China opened further to foreign investment last year. [Text] [Beijing XINHUA in English 0837 GMT 26 Feb 85 OW]

CSO: 4020/143

ECONOMIC MANAGEMENT

HARBIN, AN INDUSTRIAL GIANT IN NORTH CHINA

Beijing RENMIN RIBAO in Chinese 6 Sep 84 p 3

[Article: "Harbin Has Become an Industrial Center in North China"]

[Text] Harbin Municipality, which has usually been praised as "a pearl on the neck of a swan," has been built into an important industrial city in the 35 years since the founding of the People's Republic. In 1983, the total industrial output value was 5.96 billion yuan, an increase of 47.2 times compared with that of 1949, thus showing an average annual increase of 12.1 percent. At present, the total value of industrial output of the whole municipality in 7 and ½ day of today is equivalent to that of a whole year in 1949.

Before Liberation, only oil, rice and flour processing as well as a few machine repair industries were available in Harbin. After the founding of the People's Republic, Harbin was designated as a key city for carrying out construction which has gradually become an important industrial base with the machinery and electrical industries as its backbone. On this industrial base, there are also a variety of industries such as machinery, metallurgy, chemical engineering, light industry, textiles and industries that manufacture small articles for daily use. The number of workers and staff members employed by the various industries has increased from 110,000 to 700,000. The three power plants of electrical machinery, boilers and steam turbines have had an accumulated production of 25.66 million kw of electrical station equipment in the period from the establishment of the plants during the period of the First 5-year Plan until the end of 1983, which is equivalent to one-third of the total capacity of all electrical installations in the country.

In early August, the Heilongjiang provincial party committee and provincial government decided to vest this municipality with an authority in economic management that is analogous to that of the provincial level. It was determined at the same time that this municipality would serve as an experimental city for carrying out a comprehensive reform of the economic system of the province and that the existing provincial enterprises would be put under the administration of Harbin Municipality step by step and in a planned way.

9560

CSO: 4006/758

5 April 1985

## FINANCE AND BANKING

## PROBLEMS HAMPERING CURRENT FINANCIAL AUDITS DISCUSSED

Beijing SHANGYE KUALI [BUSINESS ACCOUNTING] in Chinese No 12, 10 Dec 84 pp 21-22

[Article by Wang Qinghua [3769 1987 5478] of Suzhou City Commerce Bureau:  
"Problems and Views About the Current Financial Audits"]

[Text] As a result of the broad financial auditing work carried out on a number of occasions in recent years, the understanding of policies, discipline and legal system by the leadership at all levels and workers and staff members have been strengthened and the consciousness of implementing the state principles and policies, financial discipline and rules and regulations considerably improved, thereby enhancing their promoting role in improving the quality of enterprises and raising economic results. However, from what I have found out about the recent progress made by various units in financial auditing, I have also heard something different. The financial and accounting personnel of many grassroots units believe that it is more difficult and strenuous now to carry out financial audits realistically. To sum up inductively, this is due to several problems as follows:

I. Lack of Seriousness and Unity of Ideological Understanding Among a Few People in Leading Positions

The purpose of conducting financial audits is to increase income and reduce expenses, raise economic results, tighten financial and economic discipline, improve operations and management and broaden activities to deal with crimes in the economic sphere. However, people in leading positions and workers and staff members in a few enterprises have not taken financial auditing work seriously for lack of sufficient understanding about the significance of this work. Some people in leadership held that "busy operations have precluded financial audits." Some have looked upon "financial audits carried out year after year as the same old stuff of making a mountain out of a molehill." Others have even thought that "You don't wash your dirty linen in public." Many workers and staff members have cherished the erroneous idea that "financial audits are a matter for the leadership and the accountants and has nothing to do with us workers and staff members in general." Due to the lack of seriousness and unity in ideological understanding among a few people in leading positions, formalism emerged in auditing work with things done in a massive and unplanned way and perfunctorily.

## II. Lack of Coordination Between Departments

Financial auditing means an all-round examination of the links involving the replenishing of stock, marketing and storage in the process of enterprise operations and management. The operations and management of enterprises include business, finance and accounting, statistics, price, storage and other areas. Thus, documents from the higher level have clearly stipulated that "in the course of carrying out financial audits, business, finance and accounting, statistics, capital construction, storage, security and discipline inspection departments must closely coordinate and keep in step. However, due to the prevalence of this incorrect attitude from top to bottom over a long time that "financial auditing is a matter for the financial and accounting departments;" the actual work has often been processed in this way: upon receiving a red-letter document, the leadership will put comments on it which read "it is requested that the finance and accounting section read and act accordingly;" then the secretariat will send the document to the finance and accounting section in a perfunctory way as if the rest of the work were to be done by the finance and accounting section exclusively. Other departments which have no access to the document will "naturally" not concern themselves with it. Whenever other departments were asked by the finance and accounting departments to discuss how to do the work together in a coordinated way, they would always use "we are busy, have no time and are understaffed" as a pretext or "we know nothing about bookkeeping and do not know how to read forms and charts and, therefore, cannot detect that problems existed" as an excuse. Without the coordination and support of various departments concerned, the enthusiasm of financial and accounting personnel for financial auditing is held back, affecting to a certain extent smooth progress.

## III. Progress Within System Fails To Keep Pace, Standards of Right and Wrong Are Not Clear

Because not enough propaganda work was done penetratingly, financial and accounting personnel of certain grassroots enterprises are quite vague about what to look for in financial auditing. New things have continued to appear, particularly since the structural reform was instituted, administration was simplified and power delegated. For example, expenses for entertaining customers under the original accounting system could not be submitted for reimbursement, but financial and accounting personnel had always been able to strictly adhere to the stipulation, while those who could not do so would settle the account by using welfare subsidies. The enterprises now have been given the power to use operational expenses which can be submitted for reimbursement as long as the leadership signs the slips. Such instances have appeared more often in the course of reform. However, because progress within the system cannot keep up with the development and change of the situation and the old "rules and regulations" are incompatible with the needs of the current reform, certain grassroots accounting personnel are not too clear about which is right and which is wrong and about standards for right and wrong in financial auditing.



#### IV. Financial and Accounting Personnel Are Mentally Afraid of Inconvenience and Difficulties

As an ancient poem says: "Ducks know early how warm the water is in the spring river." The good and bad operations and management of an enterprise will in the end be reflected by the financial and accounting departments and the financial and accounting personnel are clear about which management experience should be summed up, which weak links should be strengthened and which loopholes should be plugged. Nevertheless, some financial and accounting personnel in enterprises now have cherished this idea that "financial audits have been carried out several years in a row and nothing new has come up as a result, it is better to use this time to keep more accounts;" they also held that "there is nothing to be examined in our unit and nothing can be achieved by checking," and that "financial audits have always given the accountants trouble and offended the leadership and the masses, making enemies everywhere," and so on and so forth. Moreover, for fear that those in leading position may "make things hard for personnel conducting the audits," problems discovered in the course of examination that involved the leadership are not investigated. Precisely because of the incorrect thinking and fear of difficulty mentioned above, some financial and accounting personnel have been conducting financial audits passively instead of enthusiastically, thus hampering the normal progress of this work.

#### V. Failure in Implementing Measures for Consolidation and Reform; Very Few Problems Are Dealt With

In some units, while financial auditing has been carried out year after year problems have also cropped up yearly. Although corrective measures were taken last year to rectify the problems unearthed, new ones have surfaced this year again. Some units even continued to violate rules in the course of examination and refused to mend their ways despite repeated audits. Moreover, with regard to the persons and things discovered in the course of examination that violated law and discipline, very few have been dealt with in actuality, in spite of the fact that pertinent documents ruled that they should be dealt with strictly; even if steps were taken to deal with them, it was done superficially and perfunctorily. The main reason for these problems is that no action was taken after each examination to comprehensively and realistically analyze problems that have violated financial and economic discipline. Even though the cause was determined, no remedial measures were taken to "find a proper cure for the disease" and "mend the fold after a sheep is lost." This is due to the lack of revolutionary spirit, overcaution and fear to face things squarely. Because consolidation and reform were not carried out consistently and problems were not investigated thoroughly, some problems that should be dealt energetically were tolerated and shielded. As a result, auditing work which began with tigerish energy had petered out toward the end, thereby bringing about unhealthy tendencies and evil practices.

With regard to the above-mentioned problems, I think forceful and preferable steps should be taken in the following areas:



1. The guiding principle should be clearly defined and the "four combinations" achieved. Financial audits should be carried out in party consolidation spirit and in keeping with the demands of enterprise consolidation to achieve the "four combinations," that is, combining financial examination with the cracking down on serious economic crimes, combining it with the consolidation of the leading groups and the checking of unhealthy tendencies, combining it with the reform of the commercial structure and combining it with the development of education against corrosive influence and the raising of the quality of the contingent of workers and staff members. To this end, leading cadres at all levels, and workers and staff members should achieve a comprehensive understanding of the purpose and the significance of the financial and accounting examination, eliminate varied incorrect ideas, clearly define the focal points of audits and raise the consciousness of pushing them forward with vigor. They should also promote the smooth progress of this work with ample political zeal and a serious work attitude so as to institutionalize, routinize and popularize financial auditing.

2. Enterprise leadership should take command in this campaign, the financial and accounting personnel should take the lead and departments concerned should coordinate in work. Leadership at all levels should take serious command over auditing work from start to finish, give active support and should take command in all phases of operations; financial and accounting personnel should fully exercise the means of financial supervision, give play to the staff role of managing affairs and money matters, do away with the attitude of fearing inconvenience and difficulties and march in the forefront of financial examination work. Various functional departments should surmount departmentalism among themselves, foster the concept of the whole situation, closely coordinate in work, keep in step and work together with one heart to steadily push financial auditing work in depth.

3. It is necessary to strengthen the building of the financial and accounting system to cope with the needs of the development of the situation. The winds of reform are currently sweeping across the great earth of China, new things have rapidly cropped up like bamboo shoots after a spring rain; the old "rules and regulations" have now become "stumbling blocks" on the path of reform. Financial, tax and commercial leading departments, therefore, should study as soon as possible the new situation and new problems which crop up in the course of the reform to adapt themselves to the trends of the reform, clarify the criteria between right and wrong, revise the financial and accounting system again so as to cope with the needs of the developing situation.

4. The principle of "consolidating and reforming while auditing" must be adhered to. As our forefathers said "it is not too late to mend the fold after a sheep is lost," auditing is merely a means, consolidation and reform are the goal, thus it will lose its meaning if reform is not followed. Therefore, the principle of "consolidating and reforming while auditing" must be upheld in the course of examination, problems once discovered must be expeditiously settled and should not be put off by taking a wait-and-see attitude; steps must be taken to strengthen weak links once they are discovered, loopholes must be expeditiously plugged and preventive measures must be adopted against possible trouble. Only by so doing can we achieve the goal of auditing and help enterprises make new progress.

FINANCE AND BANKING

ACCOUNTING RULES GOVERNING BONUS TAX DISCUSSED

Beijing CAIWU YU KUALIJI [FINANCE AND ACCOUNTING] in Chinese No 12, 20 Dec 84 p 15

[Article introducing law and regulations: "Rules Dealing with Accounting Procedures on Bonus Tax Payment by State-operated Enterprises"]

[Text] The "Provisional Rules Governing Bonus Tax of State-Operated Enterprises" and provisions contained in other pertinent documents issued by the Ministry of Finance in accordance with the State Council Document No 84 of 1984 have provided the following stipulations dealing with the accounting procedures in handling bonus tax payment by the state-operated industries and supply and marketing enterprises:

1. With regard to the provision contained in the (84) Finance-Tax Document No 193 of the Ministry of Finance which reads: "The bonuses issued by enterprises to workers and staff members and bonus tax payment should be defrayed from the enterprises' bonus funds drawn from workers and staff members. In view of the fact that in instituting enterprise funds and in retaining profits by enterprises responsible for their own profit or loss under contract, the bonus for regular production is not included and this portion of bonus is still being defrayed as an outlay of production cost, these enterprises may, after abolishing the bonus 'ceiling' and levying bonus tax, draw a sum from production cost equal to 10-15 percent of the total amount of the standard wages of workers and staff members to be used as award for regular production." For the sum drawn by enterprises to be used as award for regular production, industrial enterprises should make a debit (increase) entry under the accounting items of "basic production," "subsidiary production," "workshop expenses," "enterprise management expenses" and so forth. Supply and marketing enterprises should make a debit (increase) entry under the accounting items of "commodity circulation expenses," "other operational expenditures," and a credit (increase) entry under the accounting items of "special fund--bonus fund for workers and staff members," and at the same time, make a debit (increase) entry under the accounting item of "special deposits" and a credit (decrease) entry under the accounting item of "bank deposits."

2. For bonus tax payment by enterprises according to stipulations, a debit (decrease) entry should be made under the accounting item of "special fund--

bonus fund for workers and staff members," and a credit (decrease) entry should be made under the accounting item of "special deposits."

3. Industrial enterprises should, in the item which reads "among them, the actual amount of standard wages," and the item which reads "various kinds of bonuses included in the total amount of wages" contained in Supplementary Material (2) in the "Table of Commodity and Product Cost" in Accounting-Industrial Form 11; and the supply and marketing enterprises should under the item which reads "standard wages" and the item which reads "Various Kinds of Bonuses" contained in Supplementary Material (3) in the "Detailed Table of Commodity Circulation Expenses" in Accounting-Supply Form 03, respectively add these items which read: "among which, standard wages of workers exempted from bonus tax," and "decrease: bonuses of workers exempted from bonus tax" to reflect the standard wages and various kinds of bonuses for excavation workers in mines, stevedores and construction workers. In computing the bonus tax payment, an enterprise should do the calculation after deducting the portion of a worker's standard wage and bonus. An enterprise should add an item which reads: "various kinds of bonuses for other personnel" under the newly added item: "Decrease: Bonuses for workers exempted from bonus tax" so as to reflect the amount of bonuses for other personnel after deducting the bonuses for workers exempted from bonus tax.

Industrial enterprises should also abolish seven items contained in Supplementary Material (2) in the "Table of Commodity and Product Cost" in Accounting-Industrial Form 11 which read: "Among them, piece rate wages" "(1) Bonuses prescribed in accordance with the State Council 1978 Document No 91." "(3) Bonuses defrayed from enterprise funds." "(4) Bonuses defrayed from retained profits." "(5) Bonuses defrayed from the portion of above-norm income under the contract system and from loss-reduction sharing." "(6) Bonuses defrayed from after-tax profits." "(7) Above-norm piece rate wages." "Item (2) Bonus for thrift" should be changed to read: "Among them, bonus for thrift" to reflect the economy award received by personnel paying bonus tax. An enterprise may compute the amount of bonus tax payable based on the amount of bonus after deducting the amount of economy award.

Supply and marketing enterprises should abolish the item which reads "Among them, bonuses defrayed from special funds" contained in Supplementary Material (3) of the "Detailed Table of Commodity Circulation Expenses" in Accounting-Supply Form 03.

The above rules shall be in force beginning 1 January 1985.

The accounting procedures governing bonus tax payment by other state-operated enterprises shall be supplemented in reference to the above-mentioned rules and should be submitted to the Ministry of Finance for the record.

12662

CSO: 4006/287

## FINANCE AND BANKING

### GREAT ACHIEVEMENTS IN FINANCE OUTLINED

Beijing CAIZHENG YANJIU [THE STUDY OF FINANCE] in Chinese No 5, 30 Sep 84  
pp 1-8

[Article by the PRC Ministry of Finance: "Great Achievements of 35 Years in Financial Work"]

[Text] Our nation's socialist financial work was established and developed after the birth of the People's Republic of China. For 35 years, financial work has served an important function under the leadership of the Central Committee of the party and the State Council whether during the period of restoration of the national economy or during the periods of socialist reform and socialist construction. Following the Third Plenum of the 11th CPC Central Committee, and after bringing order out of chaos and liberalizing thought, financial work has emerged with a brand new look and is struggling for the overall creation of a new situation for our nation's socialist modernization. Total state revenue increased from 6.5 billion yuan in 1950 to 124.9 billion yuan in 1983. Total state expenditure increased from 6.8 billion yuan in 1950 to 129.2 billion yuan. In addition, funds which were not included in the state budget and which were managed by each sector, each enterprise, each unit and each locality itself in 1983 already reached more than 80 billion yuan. The expansion of the scale of the state's financial revenue and expenditure and the increase in funds not included in the state budget have manifested in a concentrated way that our national strength has visibly increased and has become the strong pillar of support for an overall opening up of a new situation in socialist modernization.

#### I. Progress in the Great Social Reform

New China's public finance has been established and developed on the basis of the new sociopolitical system and the new relations of social production. It is a financial system that takes from the people and gives to the people. It is a financial system that carries out economic and social development according to plans, and it is a self-reliant, independent and autonomous system of public finance. It is closely related to the wealth and strength of the state and the personal benefits of the masses. It is a tool to realize the general line and general tasks of the party and the state during each period.

For 35 years, the new kind of socialist finance of our nation has developed along with the development of the social economy, and has become stronger day by day. The increase in financial revenue mainly relied on the development of the socialist economy and the increase in national income. From 1950 to 1983, the total production value of agriculture and industry averaged an annual growth of 9.2 percent, and the national income averaged an annual increase of 7.3 percent. From 1951 to 1983, financial revenue averaged an annual increase of 9.4 percent. When organizing financial revenue, we considered the benefits of all three aspects, the state, the collective and the individual, and revenue was taken appropriately and properly. For example, in expanding the farmers' burden, a low tax policy was implemented for a long time. At the beginning of the 1950's, because of the effort to resist the United States and assist Korea, on the one hand, and carrying out national construction, on the other hand, the agricultural tax burden of farmers was a bit more burdensome. Agricultural taxes constituted 12 percent of the actual agricultural output. Later, the policy of stabilizing the burden and increasing output without increasing taxes was decidedly implemented, and the burden of the farmers gradually lessened, and now the burden of agricultural taxes has dropped to 3 percent. Besides agricultural taxes, the state also paid a great deal of attention to the various social burdens so that the burden of the farmers would not be too heavy. For example, during the mid-1950's, farmers shouldered many burdens, so the state conducted a rectification campaign and reduced the irrational burdens. The state also paid frequent attention to regulating the financial burden of state-run enterprises and collective enterprises so that it would guarantee the necessary financial revenue of the state and benefit the development of the enterprises.

Over the past 35 years since founding of the nation, the structure of financial revenue also underwent very great changes along with economic and social development. In 1950, our nation's financial revenue coming from the state-run economic sector was only 33.4 percent and that coming from the economic sector of the socialist collective ownership system was only 0.3 percent. As the state-run economic sector developed and as the socialist reform of the system that privately owns its productive materials was basically completed, the state's financial revenue in 1956 coming from the state-run economic sector rose to 73.5 percent and the portion coming from the economic sector of the socialist collective ownership system rose to 15.7 percent. From then on, our nation's financial revenue was firmly established on a socialist economic foundation. Afterward, during the two periods of the "Great Leap Forward" and the "Great Cultural Revolution," unilateral emphasis was placed on the degree of socialization of the socialist economy and the development of the individual economy and other economic formats was neglected because of the mistaken ideology of the "left." Thus, among the financial revenues of some years, the portion coming from the state-run economic sector and the economic sector of the collective ownership system was too large. Now, the Central Committee of the party has reiterated the principle of emphasizing mainly the state-run economy and developing many kinds of economic formats. The structure of financial revenue is developing in a rational direction.

Our nation's financial expenditures are mainly used for economic construction and cultural construction so as to continuously elevate the material and cultural standards of living of all the people. For 35 years, the percentage of expenditure for economic construction and social, cultural and educational expenditures (including capital construction, floating capital and various kinds of funding) rose gradually. From 1950 to 1983, the cumulative expenditure for economic construction constituted 56.2 percent of the total financial expenditures of the same period, and social, cultural and educational expenditures constituted 13.8 percent of the total financial expenditure of the same period. National defense expenditure and administrative expenditure, respectively, constituted 17.8 percent and 6 percent of the total in the same period. Although these two expenditures were not directly used to improve people's lives, they entirely coincided with the basic benefits of our nation's people. They are important conditions that are indispensable to guaranteeing normal production by the people and a normal life for the people. At the same time, to promote economic and cultural development in regions of national minorities, old revolutionary bases and remote regions, the state's finances gave special attention to these regions in appropriating economic construction funds and social, cultural and educational funds. Since founding of the nation, the central financial authorities appropriated a total of 13.5 billion yuan in investments and funds for these regions.

It can be clearly seen from the distribution of financial capital described above that the majority of the state's financial expenditures were directly used to develop the economy and improve the people's material and cultural life. Of course, after a rational distribution of financial capital, it must be conscientiously managed and effectively used to improve its effective use. In this regard, the work of the First 5-Year Plan was done relatively well. Later, because of the influence of the ideology of the "left," the management and supervision of the use of capital was relaxed, losses and wastefulness in every sector were very great, and economic results were low. Now, we are exerting great efforts to correct this unhealthy tendency, rationally arranging construction, conscientiously carrying out feasibility studies for construction projects, promoting thriftiness and conservation in doing work, stopping various kinds of wastefulness, managing and using various types of capital well so that they may develop greater benefits.

For 35 years, the sources of our nation's financial capital relied mainly on the development of the domestic economy and on self-reliance. At the same time, some foreign capital was appropriately utilized. In the 1950's, we borrowed some funds from the Soviet Union. At the time, the funds were used rather well and they served a definite function in developing economic construction. But later, because the Soviet Government tore up the contracts, our nation suffered great economic losses. During the "Cultural Revolution," the "leftist" policies of isolation were implemented, and the work of utilizing foreign capital basically ceased. After the Third Plenum of the 11th CPC Center Committee, the Central Committee decided to implement an open door economic policy, and the work of utilizing foreign capital developed again. From 1979 to 1983, our nation's financial system borrowed as much as \$9.8



billion directly from some foreign governments, the IMF and civilian financial groups; \$3.7 billion in loans were still outstanding at the end of 1983.) We utilized this foreign capital and it served well in elevating our nation's technological standards and strengthened the ability of the domestic economy to be self-reliant. In the future, the state's financial system will exert even greater efforts to utilize foreign capital and develop international economic cooperation.

The above facts vividly show the characteristic of our nation's new kind of socialist finance that takes from the people, gives to the people and serves the interests of all the people.

## II. Promoting the Development and Perfection of the Relations of Socialist Production

Our nation's finance serves an important function in the development and perfection of the relations of socialist production. In 1952, the Central Committee of the party proposed the general line for the period of transition to gradually realize socialist industrialization of the nation within a relatively long period, and to gradually realize socialist reform of the nation's agriculture, handicraft industry and capitalist industry and business. Financial work exerted efforts to implement this general line and served the function it was supposed to.

In the socialist reform of agriculture at the beginning of the establishment of the nation, we carried out land reform, followed by efforts to guide farmers toward mutual cooperation. State finance implemented necessary coordinated measures in this regard. For example, a cumulative taxation system was implemented in collecting agricultural taxes, revenue from each level in the rural areas was appropriately adjusted, reduced tax status or tax-free status was given to poor farm families. In the course of agricultural cooperation, the state established a cooperative fund for poor farmers, helped poor farmers solve the difficulty in accumulating the required funds to join the agricultural production cooperatives. State finance also used direct investments and provided agricultural loans through banks to greatly promote the development of agricultural production, and solidified and strengthened the agricultural collective economy. After agricultural cooperation, it reformed the agricultural taxation system in time, and uniformly implemented throughout the nation a proportional taxation system which calculated taxes on the basis of the output in normal years without increasing taxes when output increased. At the same time, it followed the principle of taking self-reliance of the communes and brigades as the key link and state assistance as supplementary. State finance not only continued to appropriate large amounts of capital to support the development of agricultural production, it also set aside special funds to help communes and brigades having poor economic conditions to develop the collective economy. To encourage handicraft manufacturers to join cooperatives, state finance funded handicraft cooperatives and gave favored treatment in taxation. In the 3 years from 1955 through 1957, the favorable treatment of reduced taxes and the tax-free status given to the handicraft cooperatives was equivalent to

4.4-fold the entire dollar amount of their shares in 1955. In the course of the socialist reform of capitalist industries and businesses, state finance not only supported the rapid development of the state-run economy in all sectors to facilitate strengthening its function in guiding the capitalist economy, it also used taxation as a means of reward and limitation, actively utilized aspects of capitalist industries and businesses favorable to the nation and the people's lives to urge privately run industries and businesses to accept socialist reform.

Financial work also exerted great efforts in perfecting the internal production relations of the socialist economy. After socialist reform was basically completed, the internal distributive relations in the public economic sector and in the collective economic sector still had to be gradually perfected according to the principles of socialism.

In the rural areas, state finance continued to stabilize the agricultural tax burden of farmers, provided favors in the taxation of rural and town industries, especially rural and town industries that directly served agricultural production and farmers, and it implemented price subsidies for the agricultural use of productive materials. Since the Third Plenum of the 11th CPC Central Committee, it has readjusted the direction of use of agricultural assistance funds according to the new situation in the rural areas where the responsibility system of linking production to contract work was implemented. While assisting food grain production in key areas, it strengthened assistance to diversification in rural areas and rural and town enterprises. To promote the development of commodity production in rural areas, procurement prices for agricultural sideline products were raised by a large scale and necessary tax reduction and tax-free measures were implemented with the support of state finance. In the 5 years from 1979 through 1983, state finance used up to 100 billion yuan of funds to support agriculture just for price subsidies and reducing and giving tax exemptions to rural areas. Because of the authority of the party's rural policies and the support of state financing, agricultural production developed rapidly. In 1983, total food grains output reached 774.5 billion jin, an increase of 27 percent over 1978. Cotton output reached 92.74 million dan, an increase of 114 percent over 1978. The output of oil crops reached 21.1 billion jin, an increase of 102.2 percent over 1978.

Reforming the financial management system and correctly handling the distributive relations between the state and the enterprises are important aspects of perfecting the internal productive relations of the socialist economy. From 1958 to 1960, we implemented systems to provide funds for enterprises and to share total profits of state-run industrial, transportation and commercial enterprises. Beginning in 1967, the state implemented the system of allowing most of the basic depreciation funds to be kept by the enterprises to renovate and rebuild facilities. Since the end of 1978, as the emphasis of the work of the whole party shifted, reform of the financial system entered a new stage. In the distributive relations between the state and the enterprises, the reforms made relatively fast progress, the method of providing



funds for enterprises was revived, and this was followed by the implementation of various methods of profit-sharing and methods of being responsible for profit and loss, and depreciation rates were increased for some enterprises. In 1983, the first step of the reform to change profits to taxes was carried out. In the 5 years from 1979 through 1983, the autonomy of state-run enterprises was expanded, methods to allow enterprises to keep a portion of various kinds of profits and methods for contract work were implemented. The enterprises withheld a total of 86.3 billion yuan of their profits, and acquired 106.9 billion yuan in depreciation funds. This served importantly to enliven the economy, hasten the technical reform of enterprises and mobilize the productive enthusiasm of workers.

Major reforms were also carried out in the distributive relations between finances of the central authorities and local finances in 1980. The new system (eating from separate pots) of "differentiating between revenue and expenditure, letting each level be responsible" was implemented in most regions. This means determining a proportion of the revenue to submit to the central authorities and allowing the rest to be kept by the localities for use based on the amount of local financial expenditure as a proportion of the total financial revenue of the localities. This proportion was then fixed for 5 years without change. When the localities acquire more revenue through regulations, they can spend more. When they realize less revenue, they must spend less and seek a budgetary balance themselves. Guangdong and Fujian provinces implemented the system of "differentiating revenue and expenditure, submitting a fixed amount to the higher authorities (or providing a fixed amount of subsidy) for 5 years without change" in their financial management according to the spirit of the Central Committee, which permitted the implementation of special policies. The surplus revenue was left entirely for the provinces. The financial system implemented in regions of minority nationalities basically followed the method of "differentiating revenue from expenditure and letting each level be responsible." On this basis, the original special appropriations were still retained while fixed amounts of subsidies for contract work were set to increase annually by 10 percent. The implementation of the system described above changed the traditional method of centralizing revenue and expenditure of the past, further expanded the financial autonomy of the localities, and increased their mobile financial strength. This was beneficial to the localities in uniformly arranging various construction projects and it stimulated the development of the national economy.

In addition, much work was done to make financial laws sound. With the approval of the National People's Congress and its Standing Committee, a series of financial and taxation laws were promulgated, and with the approval of the State Council, some financial and taxation laws were promulgated. They have all served importantly to strengthen financial management, make the financial and accounting system sound, tighten financial supervision, consolidate the achievements of the reforms of the public finance system and financial operations, promote national economic development and continually increase economic results.

### III. Supporting and Promoting Socialist Economic Construction

To carry out our nation's socialist industrialization over the past 35 years, state finance appropriated 561.6 billion yuan for capital construction of industry and transportation. Many basic industrial sectors, such as machinery manufacturing and the chemical industry, developed rapidly. Some new industrial sectors, such as the electronics industry, atomic energy industry and space industry, were also established gradually from nothing. Now, our nation has already built an independent and relatively complete industrial system and a national economic system. In 1983, fixed assets of the public industrial enterprises of our nation reached 402.3 billion yuan, 24.8-fold that in 1952. In 1983, our nation's steel output reached 40.02 million tons, coal output reached 7.5 million tons, power output reached 351.4 billion KWH and crude oil output reached 106.07 million tons. The output of these major products has also climbed in rank among other nations of the world. Steel output climbed from 26th place to 4th place, coal output climbed from 9th place to 3rd place, power output climbed from 25th place to 6th place, and crude oil output climbed from 29th place to 7th place.

Supporting agricultural development is an important aspect of our nation's socialist economic construction. State finance not only arranged for capital construction investment in industries that support agriculture, it also allocated large amounts of funds for investment in capital construction in agriculture and operating funds for agriculture. From 1950 to 1983, it paid out a total of 227.6 billion yuan as agricultural aid, carried out large-scale construction for hydroelectric and water conservancy projects and various farmland capital construction projects, popularized new techniques, developed superior seeds and livestock, visibly improved the conditions for agricultural production, and raised the technical level of agricultural production.

Financial work also exerted great efforts in promoting the modernization of our nation's S&T. The state appropriated large amounts of funds and established research agencies in natural sciences and social sciences, and strengthened research in basic theory and applied sciences. To encourage the economic sector and enterprises to combine efforts with actual production, launch S&T research, and apply the achievements of modern S&T, the state budgeted special funds to develop new products, to develop potential and to reform the enterprises. In the operating funds appropriated to the economic sector, a special fund for scientific research was set up, and enterprises were allowed to write off losses in trial development of new products from earnings, and some enterprises were allowed to use part of their income and profits as funds for trial development of new products. Since founding of the nation, the amount appropriated to the economic sector for developing potential, for reforms and for trial development of new products reached more than 80 billion yuan. With the efforts of the broad numbers of S&T personnel, some major S&T achievements were realized, some blanks in S&T were filled, and some new technological sectors were established.

Our national defense also realized great achievements in modernization. For 35 years, our national defense industry underwent rapid development. The

Chinese People's Liberation Army has modern conventional weapons, and it has mastered and now owns a definite scale of modern pioneering national defense technologies.

#### IV. Increasing Intellectual Investment, Developing Social, Cultural and Educational Efforts

In building socialism with Chinese characteristics, we must not only build a highly developed material civilization, we must also build a highly developed spiritual civilization at the same time. The scale and level of development in education, culture, arts, health and sanitation, and physical education are the marks of the spiritual civilization of socialism and are important conditions to guarantee the building of a modern material civilization.

Since the founding of new China, state finance appropriated large amounts of funds to build many high schools, middle schools and elementary schools. The distribution of schools underwent major reforms. The building of educational facilities in rural areas, remote areas, regions of minority nationalities was strengthened. At the same time, through financial appropriation and by allowing enterprises to use some funds, the state supported the development of industrial and agricultural education, spare-time education, half work and half study education, education via television and broadcasting, on-the-job training in rotation, and various types of adult education. Budgeted expenditure by the state for education in 1950 was 376 million yuan and this increased to 12.8 billion yuan in 1983, a 33-fold increase. Especially in recent years, budgeted expenditure for education has increased rapidly to adapt to the needs of modernization and to develop human intelligence in a big way. In the 5 years from 1979 through 1983, expenditure in the educational sector alone totaled 51.7 billion yuan, an average annual increase of 14.3 percent. This was much higher than the rate of increase of financial expenditures during the same period. This means that when the state's finance was in a relatively difficult situation, great efforts were made to develop our nation's education. From 1949 to the end of 1983, the cumulative total number of graduates from ordinary higher educational institutions reached 4.11 million, including more than 40,000 graduate students, and 7.22 million graduates from ordinary middle schools and vocational schools (including middle technical schools, and middle normal schools).

There was also great development in our nation's health efforts. Many medical and health-care workers were trained, various types of health agencies were set up, and now they have formed a health-care network covering the cities and rural areas. Expenditure for health care provided by state finances in 1950 was 72 million yuan. This increased to 5,282,000,000 yuan in 1983, a 72-fold increase. Especially in recent years, the state greatly strengthened health care and profoundly developed planned parenthood work. From 1979 through 1983, state expenditure for health care and planned parenthood reached 23 billion yuan, an average annual increase of 15.6 percent. This was also the fastest growing expenditure of the national budget. Because of the development of health care, the sad situation in old China when there was a shortage of doctors, very few medicines, and the people were unable to get medical treatment

was changed. The people's health has improved, and the death rate of the population has dropped from about 25 per-thousand before liberation to 7.08 per-thousand. Planned parenthood work also realized great achievements, and the natural population growth rate in 1983 dropped to 11.54 per-thousand.

New China's culture, arts, journalism, publishing and physical education have rapidly developed. For 35 years, our nation has built many new cultural and arts agencies and agencies to take care of historical relics. Newspapers, magazines and such published materials have increased rapidly. The people's sports activities have prospered. In some sports events, we have reached leading positions internationally. The new television broadcasting industry has developed very quickly. Now, it has become an important tool for propaganda work. The development of cultural activities and physical education has served importantly to elevate the ideology and morality of the whole people, improved the scientific and cultural standards of the whole nation, encouraged the fighting spirit to make China strong, and promoted socialist modernization.

#### V. Continually Improving the People's Living Standards

To continually improve people's life on the basis of developing production has always been the principle of our party. The state's finances followed the principle of "one, providing food for the people and two, carrying out construction," and in the distribution of funds, appropriate arrangements were made to meet the needs in improving people's life.

In the early post-liberation period, when our nation's financial affairs and economy were still in a very difficult situation, the state exerted great efforts to restore and develop production, keep prices stable and stop inflation, and provided a large amount of funds to carry out production, provide relief from devastation, and provide jobs. These measures quickly stabilized people's lives. During the period of the First 5-Year Plan, state finances carried out a series of measures to improve the lives of urban and rural people while guaranteeing funds for construction needs. The wage system for state workers and workers of enterprises was readjusted and made sound, the wage levels of workers were elevated according to plan, a labor insurance system for workers of state-run enterprises was established, and various kinds of public welfare services were provided. In 1957, the average annual salary of workers of the various sectors of the system of state ownership was 637 yuan, an increase of 42.8 percent from the 446 yuan in 1952. Also in 1957, labor insurance and welfare premiums paid by the units of the system of state ownership constituted 17.9 percent of the total wages of workers. In the rural areas, the state not only provided huge sums of investment capital to develop agricultural production, it also gradually increased the procuring prices for agricultural sideline products. In 1957, the general index of procurement prices for agricultural sideline products increased 46.2 percent from 1950 but the general index of retail prices of rural industrial products increased only 12.1 percent. Farmers thus greatly benefited from both increased production and prices.

During the period following 1958, our national economy suffered serious setbacks because of mistakes in economic work, and improvement in people's life was limited. Later, national economic readjustment was carried out, the financial and economic situation visibly improved, and the standard of living of rural and urban people improved. In 1965, the average consumption of urban and rural residents increased 22.6 percent from that in 1957. During the period of the "cultural revolution" from 1966 to 1976, the party, the state and the people suffered the most severe setbacks since the founding of the nation. Our national economy reached the verge of bankruptcy, and there were no improvements in the life of the rural and urban people.

Since the third Plenum of the 11th CPC Central Committee, various channels were used to increase the people's individual income and consumption level and further improve people's standard of living in order to solve the problems that resulted from the 10 years of chaos. From 1979 to 1983, the state paid out huge funds to provide employment for workers in urban areas, increased wages and implemented merit systems, built municipal public facilities and housing for workers, implemented various kinds of price subsidies, and thus standards of living improved to a greater extent. In 1983, the annual income for living expenses of families of urban workers averaged over the population showed an increase of 68 percent from 1978. In rural areas, increased agricultural production and increased prices for agricultural sideline products caused the annual per capita net income of the farm family to increase even more quickly. In 1983, it showed an increase of 131 percent over 1978.

#### VI. Financial Work in the New Period

Since the Third Plenum of the 11th CPC Central Committee, our nation has entered a historical period of a new situation in launching socialist modernization in an overall way. Financial work corrected its guiding ideology by bringing order out of chaos and purging the "leftist" influence, actively implemented the principle of national economic readjusting, restructuring, reorganizing and improving, exerted efforts to open up a new situation, implemented a series of new policies and measures, and realized new achievements.

Because of the "leftist" mistakes of the past, unilateral emphasis on accumulation, insufficient attention to improving the people's life, the enthusiasm of the people and masses was affected. In recent years, the state rationally adjusted the proportional relationship between accumulation and consumption, insisted on the principle of acting according to one's own capabilities, and comprehensively balanced public finance, credits, and loans, materials and foreign exchange. While controlling the scale of capital construction and appropriately shrinking accumulation, a series of measures such as enlarging the scope of employment opportunities in towns, readjusting wages, giving monetary awards, increasing the procurement prices of agricultural sideline products, were implemented and they greatly increased consumption funds. In the spendable portion of national income, savings dropped from 36.5 percent

in 1978 to 30 percent in 1983, and spending increased from 63.5 percent in 1978 to 70 percent in 1983. From 1979 through 1983, the state appropriated 277 billion yuan in funds to improve people's lives in the urban and rural areas. While readjusting the proportional relationship between savings and consumption, state finance also greatly increased investment in intellectual development, the scale of investment in fixed assets was controlled, and the investment structure was adjusted. This served importantly to guarantee key construction projects, increase investment in energy and transportation, promote technical reform of enterprises, develop light and textile industries, and make markets prosperous and enrich people's lives.

To adapt to the new situation in economic development, to better mobilize the enthusiasm of enterprises, localities, businesses and administrative units, financial reforms gradually developed vertically and in depth. In 1983, the first step in the reform of state-run enterprises to change profits to taxes was completed. This meant that profits realized by state-run enterprises were taxed according to a definite percentage, and the remaining profits after taxes were rationally distributed between the state and the enterprises. Practice proves that changing profits to taxes serves an important function in correctly handing the benefits among the state, the enterprises and the workers, enlarging the autonomy of enterprises, guaranteeing that in the increasing amount of profits of the enterprises, the government receives the larger portion, guaranteeing a stable increase in the state's financial revenue, and maintaining the basic balance between financial revenue and expenditure. At present, we are actively preparing for the second step in the reform of changing profits to taxes for the fourth quarter of 1984. The concrete method is to rationally readjust the tax rates of commodity taxes, add resource taxes, increased value taxes and several categories of local taxes. After levying income taxes, readjustment taxes will be levied according to different situations. The profits left after taxes are for the enterprises to control. Through this reform the distributive relationship between the enterprises and the state will be basically fixed by law so that the state's financial income can grow steadily along with economic development and enterprises can receive more benefits from the additional profits. This can also ease the conflicts brought about by unreasonable prices at present so that enterprises can compete under conditions in which the grossly varying differences in the profits of enterprises have been lessened. Because enterprises will no longer submit their profits according to their administrative hierarchy, this will rationally solve the problems between "vertical" and "horizontal" management units, and in the economic relations between the central authorities and the localities. Starting from 1 April of this year, the state has been giving out monetary awards to workers of some enterprises and has implemented on a trial basis the method of "not limiting the top and not guaranteeing the bottom line." This means, enterprises that accomplish state plans completely or with a surplus and which submit more profit taxes than the previous year can correspondingly give more cash awards. Enterprises that did not complete state plans and that submitted less profit taxes than the previous year must reduce cash awards or stop giving cash awards and even withhold a portion of wages. Enterprises that give out cash awards that surpass a definite amount will have to pay cash award taxes to the state to prevent a loss of control



of consumption funds. This method will be implemented on an overall basis along with the implementation of the second step in changing profits to taxes. After completion of the second step in the reform of changing profits to taxes, the method of dividing financial revenue between the central and the local levels will be changed to a method relying mainly on division by tax categories, and revenues will be divided according to the tax categories of revenue of the central authority, local revenue and revenue shared by the central authority and the localities so that central finance and local finance will both have stable sources of revenue. In addition, in capital construction, funds for capital construction projects that had acquired the ability to repay after they began production were changed to loans. Practice of this reform proved that loans required enterprises to use the profits created after production began and funds from depreciation to pay back the financing authorities, and this was more favorable to mobilizing the enthusiasm of the project units than direct funding by the financial authorities without repayment requirements, and it was favorable to conserving investment, shortening the construction period and improving investment results. Cultural, educational and health units and administrative agencies were made responsible for their own funds and this mobilized the enthusiasm of these units to be thrifty in expenditure. In general some reforms have been carried out in all sectors of the financial sector in recent years. These reforms changed the relations of economic benefits in all sectors under the past system of unified revenue and unified expenditure. They allowed each locality and each unit to make big strides forward in combining responsibility, rights and benefits.

The state implemented necessary measures to concentrate funds according to the decision by the CPC Central Committee to concentrate money and materials and to guarantee the state's key construction projects. Beginning from January 1983, under the prerequisite of continuing to implement the current financial system and guaranteeing the autonomy of enterprises, the funds not included in the budget of enterprises, businesses, localities and armed forces units were taxed to set up a fund for key construction projects to develop energy and transportation. Starting on 1 October 1983, capital investment funds provided by each region and each sector itself for key construction projects were taxed as a building tax. At the same time, some other taxation measures and pricing measures were implemented so that the state amassed a fairly large amount of capital. Starting in 1981, the state also issued treasury bonds each year to balance financial revenue and expenditure and to carry out key construction projects. The measures of the state described above served well to improve public finance, stabilize the national economy, and guarantee key construction projects.

In recent years, the state implemented the policy of favorable treatment to greatly develop the work of utilizing foreign capital. At present, besides the foreign loans uniformly borrowed by the state for domestic construction, we implemented a series of measures of reduced taxation or tax-free measures and favorable financial measures to encourage foreign firms to come to China to invest and set up factories for processing imported materials, for compensatory trade, for joint investment and private investment and such.

For example, in treating the income tax of joint capital business enterprises, new joint-venture enterprises with a joint-venture period of more than 10 years will be exempt from income tax for the first and second year, and will have to pay only half of the income tax from the third to the fifth year. Joint enterprises in agriculture and forestry with lower profits and joint ventures set up in economically undeveloped regions can receive more favorable treatment of reduced taxes or tax exemptions. There are also favorable stipulations different from those for domestic enterprises concerning the number of years for depreciation for joint enterprises. There are also a series of stipulations of favorable taxation for uniform industrial and business taxes levied on import and export products and for individual income taxes. These measures are being understood by foreign firms and they have forcefully attracted foreign firms to come to China to invest and set up factories. Up to the end of 1983, 188 joint capital enterprises have been set up, and there are some other large projects under negotiation. In 1984, the State Council decided to further open up 14 coastal port cities including Dalian and Hainan Island. Certain special policies must also be implemented for these newly opened regions, such as allowing them to set up special economic zones and enlarging their authority. Foreign firms that invest and set up factories in these port cities shall also enjoy many kinds of favorable tax treatment.

The reforms and policy measures described above are creating a profound effect in our nation's economic life, and they have established a foundation for creating a new situation in financial work. The financial and economic achievements since the birth of new China have proven that economic and cultural backwardness can be changed entirely under the leadership of the proletariat political party armed with Marxism-Leninism and Mao Zedong thought and in a superior socialist system. We will also be able to build our nation into a strong socialist nation with a modern agriculture, a modern industry, a modern national defense and a modern S&T on the basis of the achievements we currently possess.

As we review the great achievements realized in financial work over the past 35 years, undoubtedly there are still many shortcomings and mistakes. In the past, because of the influence of the ideology of the "left" on financial work in our economic work, problems in setting overly high goals in finance, abandoning financial supervision, serious wasting of capital occurred. If there were no such mistakes, we can confidently say, the achievements in financial work would be even greater, and the achievements realized in the development of the whole economy would also be greater.

In the new historical period, financial work faces a glorious and difficult task, and as socialist modernization begins on an overall basis, there will be more new problems, new situations, and new experiences occurring before us. In the future, we must continue to progress on the foundation of the achievements already made. We must further eliminate some of the remnant effects of the "left" in financial work, break away from those out-dated confinements and methods, further carry out financial reforms well, change the remnants of eating from the "big pot," of relying on the "supply system," and egalitarianism. We must greatly mobilize the nation's cadres in financial



work and taxation work in order to exert efforts to stimulate production and improve economic benefits. We should propose new ways to create wealth, accumulate wealth and use wealth according to the new situation resulting from changes in economic development. We should self-consciously utilize the mechanism of the economic lever to further elevate the standard of financial management and financial supervision, exert efforts to create a new situation in financial work and make greater contributions to the glorious task of socialist modernization.

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## FINANCE AND BANKING

## CURRENT PRICING POLICY OF AGRICULTURAL PRODUCTS DISCUSSED

Beijing JINGJI YU GUANLI YANJIU [RESEARCH ON ECONOMICS AND MANAGEMENT]  
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[Text]

I

There are different viewpoints in theoretical circles and pricing departments concerning whether or not current purchase prices for agricultural products are appropriate. One opinion is that the purchase prices for agricultural products are too low despite the readjustment in 1979 and should be readjusted higher. Another opinion feels that the 1979 increase in purchase prices for farm products was excessive, that it is the direct cause of rising market prices over the past several years, and that suitable measures should be adopted to lower them. I feel that both these opinions are superficial and are not suited to the objective realities following price readjustments for farm products.

Agriculture is the foundation of the national economy. The rationality or irrationality of purchase prices for agricultural products plays a major role in the development of agricultural production and the entire national economy. Rational farm product purchase prices should: 1) Replenish the labor of agricultural producers that has been consumed and provide them with certain economic benefits; 2) Take into consideration the interests of the state, collectives, peasants and urban employees and residents. 3) Promote the planned, proportional development of agricultural production and the national economy. There was a substantial increase in the purchase prices paid for agricultural products after the 3d Plenum of the 11th CPC Central Committee that changed the situation of too-low purchase prices for farm products that had existed in China for many years. There was a tendency toward rationality and a general reflection of the value of farm products. According to statistics from related departments, purchase prices for farm products nationwide in 1978 were 117.4 percent higher than in 1950. They rose by another 38.5 percent between 1978 and 1981. Practice has shown that the current farm product purchase prices set after the readjustment have promoted the development of agricultural production and guaranteed rational economic benefits for the peasants. From 1978 to 1981, for example, agriculture in China has had fairly good harvests despite major natural

disasters. The gross value of agricultural output reached 172 billion yuan in 1981, up by 17.89 percent over 1978. Total grain output reached 650 billion jin, up by 6.6 percent, and total cotton output reached 59.35 million dan, up by 36.9 percent. Total oil crops output reached 20.4 billion jin, which was 95.6 percent higher. There also were increases to different degrees for other agricultural products. The implementation of production responsibility systems in agriculture has led to a universal drop in production costs for farm products as well as obvious improvements in cost-price ratios and economic results. Costs per mu for the six grains (rice, wheat, millet, corn, sorghum and soybeans) averaged 43.88 yuan, a 4.7 percent decline from 1980. Taxes and costs per 100 jin amounted to 11.33 yuan, a 1.73 percent drop from 1980. Costs per mu for the three oil crops (rapeseed, peanuts and tea oil seeds) averaged 43.36 yuan, down by 7.1 percent from 1980. Taxes and costs per 100 jin amounted to 26.63 yuan, a 19.9 percent drop from 1980. Costs per mu for the eight industrial crops (cotton, flue-cured tobacco, jute, bluish dogbane, hemp, ramie, sugarcane and beets) averaged 95.85 yuan, a 2 percent drop from 1980. Net income per mu after the tax reduction reached 11.16 yuan for the six grains, up by 33.33 percent from 1980 and a 14.8-fold increase over 1978. This figure was 22.68 yuan for the three oil crops, up by 109.75 percent from 1980 and a 3.97-fold increase over 1978. The figure for the eight industrial crops was 67.09 yuan, up by 21.51 percent over 1980. Between 1978 and 1981, there was a 3.6-fold increase [in net income per mu] for cotton, a 2.5-fold increase for flue-cured tobacco and a 1.6-fold increase for sugarcane.

The higher purchase prices for farm products and the implementation of over-quota purchases at higher prices and negotiated prices for some primary agricultural products has greatly encouraged the peasants to sell farm products. Total purchases of farm products in 1981 were 71 percent higher than in 1978. There was an increase of 32.5 percent even after price increase factors are deducted. From 1978 to 1981, purchases of grain increased 25 percent, oil crops increased by 135 percent and cotton increased by 46 percent. Even with the exclusion of price increases in farm product purchases, there also were other measures external to pricing such as over-quota purchases at higher prices, negotiated prices, subsidies, and returned profits. There was a real and substantial increase in the income of peasants from sales of farm products. In the 3 years between 1978 and 1981, the peasants received an additional 48.1 billion yuan in income as a result of price increases. Peasant net per capita incomes were 134 yuan in 1978, 160 yuan in 1979, 191 yuan in 1980 and 223 yuan in 1981, a 66.41 percent increase between 1978 and 1981.

## II

Under socialism, readjustment of purchase prices for agricultural products involves the party and government's conscious use of the law of value to develop socialist economic services, and it also is an important route to reducing the price scissors between industrial and agricultural products. China's current situation indicates that farm product purchase prices should go through a period of relative stability following readjustment. This is first of all determined by the labor productivity situation in China at the

present time. Marx pointed out that "the higher that labor productivity is, the smaller the amount of labor time required to produce a product. The reduction of the amount of labor condensed within the product results in a lower value of the product. In contrast, the lower that labor productivity is, the greater the amount of labor time required and the greater the value of the product" ("Capital," Vol 1, p 53). Marx's theory indicates that under normal conditions, the level of labor productivity is strongly related to prices. When we look at China's current situation, we see on the one hand that industrial systems and structures are now undergoing readjustment in China, and on the other hand that the large proportion of the population that is agricultural in China and the small amount of cultivated land has caused a large amount of surplus labor in rural areas. For this reason, there will be no major changes in industrial and agricultural labor productivity, the amount of labor condensed in industrial and agricultural products or the total amount of value in the near future. Stabilization of the principles for farm product purchase prices for a period of time is, therefore, suited to the needs of the law of value. Second, China's current financial income situation has determined that there must be a principle of stabilizing purchase prices for farm products. Everyone knows that prices have a distributional function. There has been a deficit in state financial income for the past several years for several reasons, and there is fairly serious scattering of financial strengths. The state also must centralize the needed capital for key construction projects to assure that the goal of quadrupling the gross value of industrial and agricultural output by the end of the century as proposed by the 12th CPC Central Committee is achieved. For this reason, if we do not immediately achieve relative stability in farm product purchase prices and instead continue to make substantial increases in farm product purchase prices, the load will exceed the state's fiscal capacities and have negative effects on the centralization of capital for key construction. At the same time, it would also increase the living costs of employees [in the state run sector], affect improvements in their standard of living, and ultimately will have similar effects on the economic incomes and standards of living of the peasants. Third, stable development of agricultural production requires stabilization of purchase prices for agricultural products. Agricultural products is a general name for the products from the five lines of agriculture, forestry, animal husbandry, sideline production and fisheries. There are close relationships among all five lines and among each of the products within a particular line. Reflected in prices, they objectively demand a rational proportional relationship. Irrational purchase prices between varieties and repeated or excessive readjustments in prices can have unfavorable outcomes. The result can be competition for land, fertilizer and labor between varieties, overly large herds, or excessive cutting and extraction, all of which can cause damage to agricultural resources.

### III

Stabilization of purchase prices for agricultural products is suited to the basic interests of the people of China at the present time. There are some problems in current farm product purchase prices, however. The most prominent problems are the irrational proportions within agricultural products

and excessive and chaotic over-quota purchases at higher prices and award sales.

The irrationality of the proportions within agricultural products is manifested primarily in the great disparity in real income from grain and other crops. The net value of output per mu calculated according to posted purchase prices in 1981 averaged 33.72 yuan for the six grains and 124.48 yuan for the eight industrial crops, the latter figure being 2.7 times greater than for grain. Net income per mu for the eight industrial crops was five times the amount for the six grains. The cost/profit ratio (after-tax net income per mu as a proportion of costs per mu) calculated at posted prices was 25.4 percent for the six grains, 70 percent for the eight industrial crops and 52.3 percent for the three oil crops. If we calculate using actual selling prices (including negotiated prices and higher prices), then the figure would be 57.10 percent for the six grains, 85.5 percent for the eight industrial crops and 107.3 percent for the three oil crops. The much-higher economic income from industrial and other crops has caused a tendency toward blind development to appear. An example is the area planted in flue-cured tobacco, which reached 8.795 million mu in 1981, up 47.8 percent from 1980. The area planned for planting in 1982 was 8 million mu, but the actual area planted was 14 million mu. The area planted in rapeseed in 1981 reached 57.011 million mu, up 33.6 percent from 1980. This was accompanied by a yearly reduction in the area planted in grain. Only 1.72 billion mu of land were planted in grain in 1981, a reduction of 4.14 million mu from 1980 and 80 million mu from 1978. This situation will have negative effects on the national economy if it is allowed to continue.

There are a lot of problems with the excessive and disorganized over-quota purchases at higher prices and award sales within farm product purchase prices. Because the level of agricultural production in China is still fairly low at the present time, the state has adopted methods like higher prices for over-quota purchases and award sales to encourage the peasants to sell more grain and other farm products, which has led communes, brigades and the peasants in high-yield areas to increase output and sales. This is feasible in the short run and is suited to the interests of the state, collectives and individual peasants. In the process of practice, however, the failure of management measures to keep pace has led to many problems. This is manifested primarily in: 1) The destruction of rational price ratios between varieties, which has affected the proportional development of farm product production. In Guangxi, for example, besides the 50 percent higher prices paid for over-quota grain that are stipulated by the Central Committee, they also provide award sales of items in serious shortage like name-brand bicycles and sewing machines. The result is that it is less worthwhile to raise pigs than it is to sell over-quota grain, meaning that the peasants are unwilling to raise pigs. A survey by the Guangxi Price Commission showed that the total expenses for feed, fuel, medicine and so on for raising a 140 jin pig amounted to 196.39 yuan. If we deduct the income from pig manure, the net cost per live pig is 173.88 yuan. If sold to the state at the posted price, the farmer would receive 157.67 yuan, a net loss of 16.21 yuan. If he planted grain or other industrial crops to sell to the state at higher over-quota prices, the profits would be much greater than the income from

raising pigs. This is one of the primary reasons for the failure of pig production in Guangxi to grow and for the state's difficulties in buying pigs and the masses's difficulties in eating meat. 2) They influence the stability of market prices. There has been a continual expansion of award sales of agricultural products in recent years, as well as continual increases in award sales standards. This has caused the real price of some farm products (including posted prices, higher over-quota prices, award sales and returned profits) to exceed rural market prices, which has aided in raising market prices. Table 1 shows the situation for real prices that exceed rural market prices in Guangxi:

TABLE 1. Extent to Which Actual Prices for Agricultural Products Exceed Rural Market Prices in Guangxi

units: yuan/dan

(a) 品名	(b) 收购形式	(c) 收购 牌价	(d) 奖售物资 牌市差价	(e) 实际 价格	(f) 集市 价格
(g) 稻谷	统 (j) 购	11.55	1.58	13.13	20
	双 (m) 超	17.325	3.94	21.26	20
	基地超交 (n)	17.325	7.87	25.20	20
(h) 黄豆	统 (j) 购	37.5	10.68	48.12	42
	兑 (o) 换	37.5		54.79	42
(i) 绿豆	统 (j) 购	35.7	11.81	47.51	65
	加 (p) 价	53.55	11.81	65.36	65
	兑 (o) 换	53.55		80.15	65
(j) 花生油	统 (j) 购	11.50	31.5	146.5	190
	加 (p) 价	172.5	15.75	188.25	190
(k) 茶油	统 (j) 购	118	15.75	134.75	180
	加 (p) 价	177	23.62	200.62	180

Key:

- a. Product name
- b. Form of purchasing
- c. Posted purchase price
- d. Price differential between award sales materials and posted market prices
- e. Actual price
- f. Rural market price
- g. Rice
- h. Soybeans
- i. Mung beans
- j. Peanut oil
- k. Tea oil
- l. Unified purchase
- m. Two over-quota purchases
- n. Base area over-quota submissions
- o. Exchange
- p. Higher price

Table 1 shows that the prices for the two over-quota prices and over-quota base area submissions for rice, the unified purchase and exchange prices for soybeans; and the higher-price purchases of tea, oil and other products are higher than local rural trade prices. The role of grain prices as a "benchmark" of market prices caused a chain reaction on the prices of all farm products, resulting in spiraling price increases. 3) It has increased contradictions within the peasantry. The variations in base amounts for requisition and assigned purchases of grain, cotton and oil crops have led to differences in the ratios of higher prices for over-quota purchases. This can have positive effects on the real incomes of the peasants, or it may cause them hardship. The question of good and bad effects is especially prominent between new and old producing regions and between primary and secondary production regions. According to statistics from the State Price Commission, the average unified purchase and higher over-quota prices for cotton purchases in 1981 showed that the price per dan in old and primary producing regions was 159 yuan in Shanghai, 162 yuan in Zhejiang, 158 yuan in Jiangsu, 154 yuan in Hubei and 198 yuan in Hebei. In Shandong, a new producing region, however, the price was 204 yuan, a 50 yuan difference between the minimum and maximum prices. 4) It easily encourages evil winds [corrupt practices]. The overly high award sales standards that exceed actual requirements have caused some peasants not to use the materials they receive for award sales to replenish their production and living needs. Instead, they take the goods they receive from the state as award sales and resell them to the state at higher over-quota prices and negotiated prices, or they sell it themselves on the market. An example is award sales of chemical fertilizers. The results of a survey by related departments concerning award sales standards for chemical fertilizers and actual fertilizer application is shown in Table 2:

Table 2. Award Sales Standards and Actual Applications of Chemical Fertilizer in Guangxi

	(a) 品 种	(b) 化肥奖售标准 (每担)	(c) 实际施用量 (每担)
(d)	粮食(大米)(加权平均)	42斤	32斤
(e)	花生(小)	84斤	32斤
(f)	黄红麻(二级)	60斤	41斤
(g)	苧 麻	100斤	60斤
(h)	茶叶(毛茶)	114斤	95斤
(i)	烤烟(加权平均)	40斤	38斤
(j)	黄 豆	95斤	18斤

Key:

- |  |  |
|--|--|
| a. Product type  | g. Ramie                                 |
| b. Award sales standards for chemical fertilizer (per dan) | h. Tea leaves (semifinished tea)         |
| c. Actual amount utilized (per dan)                        | i. Flue-cured tobacco (weighted average) |
| d. Grain (rice--weighted average)                          | j. Soybeans                              |
| e. Peanuts (small)   |  |
| f. Jute and bluish dogbane (grade 2)                       |  |



Table 2 shows that current award sales of chemical fertilizers for purchases of agricultural products greatly exceed the actual amounts being applied. There is a 31.25 percent excess for grain, a 162.5 percent excess for peanuts, a 46.34 percent excess for jute and bluish dogbane, a 66.66 percent excess for ramie, a 20 percent excess for tea, and 5.3 percent excess for flue-cured tobacco and a 428 percent excess for soybeans. Because the award sales standards exceeded actual requirements, the peasants take the surplus to the market to sell it at prices that often are several times higher than state posted prices to get high profits.

#### IV

Stabilization of prices includes both stabilization and readjustment. Stability is a prerequisite for readjustment of irrational prices, while readjustment of irrational prices can promote further stability in market prices. Stabilization of purchase prices for agricultural products does not mean, therefore, that the prices of farm products should be frozen. It means instead that, based on the various problems found in farm product purchase prices, the industrial and agricultural development situation and change in market demand, and with a prerequisite of maintaining relative stability in overall price levels, there should be cautious readjustments and corrections in any irrational farm product purchase prices. Looking at the current situation for farm product purchase prices, I feel that we should proceed in the following areas:

1. Rational determination of base amounts for purchases of agricultural products. There are substantial differences in the prices outside base amounts in current policies and base amounts for farm product purchases. Irrational base amounts have made it hard to control prices. Some communes, brigades and peasants, concerned only with their personal economic interests, are setting very low base amounts for sales of agricultural products to the state and then selling their surplus farm products at higher over-quota purchase prices or negotiated prices. In reality, this involves "eating the state's rutabaga" [appropriating benefits from the state]. For this reason, we should set rational farm product purchase base amounts by seeking truth from facts and maintain relative stability. There should be no activity without approval by the Central Committee, and any base amounts that have been lowered should be readjusted back to the original amounts. Requisition (and assigned) purchase base amounts should be set rationally as production develops in industrial crops and new producing regions after they have been planted for a certain number of years. At the same time, we also should strengthen education in political ideology for the peasants, clarify the importance of giving consideration to the interests of the state, collective and individuals, make them understand that they should strive to meet their tasks for selling farm products to the state, and that they support the patriotic activities of socialist modernization and construction.

2. Make appropriate readjustments in the price ratios within agricultural products. Grain production is the foundation of agricultural production. The development of each line within agriculture is in a certain sense determined by the grain production situation. For this reason, price ratios

for farm production should resolutely adhere to the principle of "definitely not letting go of grain production, actively developing the diversified economy" with grain prices as the core so that those planting grain crops, industrial crops or other crops receive roughly equivalent economic benefits. This requires readjustment of purchase prices for farm products according to cost ratios. Based on current cost ratio conditions for grain and industrial crops, grain should be raised by 30 to 50 percent if it is to be able to maintain relative cost ratios with most industrial crops. The financial income situation in China over the past few years makes it difficult to raise them this much at one time. For this reason, I propose that grain prices be adjusted upward as appropriate and that the purchase prices for economic crops like tobacco, jute and bluish dogbane be lowered in order to reduce the price differential between them.

3. Readjust and reform the purchasing methods of higher over-quota purchase prices and award sales. The purchase base amounts for certain farm crops with too-low base amounts, high over-quota price ratios and high income should be adjusted upward. There should be conscientious elimination and readjustment of higher prices, subsidies and profit returns that some areas put into effect themselves. The range of award sales should be reduced gradually and award sales standards should be lowered for products where supply is adequate or where production has developed substantially. On this foundation, we should gradually transform the current method of setting higher over-quota prices according to fixed base amounts to the method of proportional higher prices.

4. We must strengthen management of farm product prices. The primary reason for the excessive and disorganized higher over-quota prices, negotiated prices and award sales products that have appeared in current farm product pricing is the failure of management work to keep pace. This has caused the setting of multiple prices, exceeding administrative authority, unauthorized setting and raising of prices, casual expansion of the scope of negotiated prices, greater numbers of products receiving award sales and higher award sales standards. In the future, all departments, including price management departments, should strictly observe administrative authority for commodities and prices and strengthen management of farm product prices. They must not violate state decisions or act on their own. The law must be enforced for violators and economic or even legal responsibility should be sought.

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FINANCE AND BANKING

FUNCTION OF BANK IN SOCIALIST CONSTRUCTION REVIEWED

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[Article by Liu Hongru [0491 7703 0320]: "Reestablish Our Understanding of the Role of the Bank in the Socialist Construction"]

[Text] This is the 35th anniversary of the founding of the People's Republic of China. Conscientiously summing up the historical experience of the work of the bank in the last 35 years and, on this basis, studying the characteristics of the work of the bank in the new period is of great significance to clarifying the direction of reform of the bank and to opening up the road for the development of the bank in the new socialist period. The historical experiences of the development of the bank in our country are multifaceted. We must study them one by one. This article will only discuss some viewpoints regarding the historical experiences and direction of development of the role of the bank in the socialist construction.

1.

In the course of the last 35 years, the banks of our country have scored glorious achievements and successful experiences as well as made mistakes and learned their lessons.

After the nation's founding, under the leadership of the CPC Central Committee, we very rapidly curbed the vicious monetary inflation left behind by the Guomindang, banned the circulation of foreign currency and counterfeit currency, and set up an independent, self-initiated, unified and stable socialist monetary system. We confiscated the bureaucratic capitalist banks, reformed the private monetary business, set up state banking organizations on a general scale, organized rural credit cooperatives and other monetary organizations, and established our country's socialist monetary system. In line with the need of developing the socialist economy in a planned manner, we established a whole set of basic business systems for the bank that included credit and loans, account settling, cash exchange, foreign exchange and book-keeping. In the various historical stages of the socialist economic construction, the bank and the entire monetary business have both played important roles. In sum, the bank has played a relatively proper role in three different periods.

The first period was the early days since the nation's founding. Under the circumstances when the country was facing financial and economic difficulties and extremely serious monetary inflation, it was necessary, on the one hand, to vigorously revive the national economy and, on the other, to gradually utilize, limit and transform capitalist industry and commerce as well as to carry out socialist transformation of agriculture and the handicrafts industry. In this period, the state made relatively good use of the various economic measures of the bank and, through the circulation and withdrawal from circulation of money, tight and loose bank loans, and high and low interest rates, effectively supported the development of the state-run economy and promoted the socialist transformation of the system of private ownership of the means of production. At that time, in order to stabilize the money and curb monetary inflation, the bank, on the one hand, supported the state-run commerce to concentrate materials in its hands and, on the other, made use of credit and loan measures to deal blows to the capitalist opportunist forces. The work of the bank was relatively lively and economic news was relatively well spread. In this period, in launching the socialist transformation of the system of ownership of the means of production, we have gained very valuable experience in bringing into play the role of the bank in regulating the economy with the coexistence of diverse economic components.

The second period was the period of economic readjustment in the early sixties. In this period, we primarily used the economic and administrative measures which the bank had on hand to promote the readjustment of the national economy. Unlike the early days after the nation's founding, we were faced with a serious imbalance in the proportionate relationship in the national economy and a situation of hardship involving financial deficits and the excessive issuance of currency. The state passed a decision (that is, the six articles of the bank) to centralize and unify the management of credit and loans and the issuance of currency, with the bank playing the role of guarding the pass. While reducing capital construction expenses, we strictly controlled credit and loans, tightened the money market, treated each case separately, imposed tight or flexible terms, and urged the enterprises which should be closed down, which should stop production, which should be merged and which should shift production to undergo readjustment as quickly as possible. On the basis of a vigorous readjustment, in order to revitalize the economy, the bank adopted many supportive policies toward agriculture and the light and textile industries. In this stage, the bank gained very valuable experiences in promoting economic readjustment. Nevertheless, these were experiences under the situation of an economic imbalance. We must explore through practice the experiences of the bank's regulatory role in the normal development of the national economy.

The third period followed the Third Plenum of the 11th CPC Central Committee when a key turning point appeared in the work of the bank. In guiding ideology, for the first time, we clearly regarded the bank as a lever in developing the economy and renovating technology. In implementing the principle of "readjusting, restructuring, consolidating and improving," we gave full play to the role of the bank as the tool to swiftly change the situation of the national economy which was bordering on bankruptcy. On this basis, the bank conducted a series of reforms. For instance, making use of economic methods, we collected a large amount of funds. Through setting up medium- and short-term equipment

loans and loans for the nonproduction realm, as well as diverse economic forms and personal loans, we expanded the scope of the function of the bank. We set up foreign exchange loans and other foreign exchange businesses. We tried to operate flexible and diverse credit forms and trust and leasing businesses. Through making use of credit and loans and interest rate as the levers, and through readjusting the distribution between credit and loans, we readjusted the economic structure. We revived and developed many types of domestic insurance business. We set up a central banking system and separately set up specialized banks and other monetary organizations, and so forth. Our country's monetary business entered a new stage of vigorous and rapid development. In the last few years, although the reform of the bank has just begun, we have already obtained many new experiences. We have made a heartening step in how to bring into play the role of the bank in regulating the economy in the healthy development ahead of the socialist economy.

However, the bank has also suffered setbacks in history. In particular, in the "Great Leap Forward" and the "Great Cultural Revolution," the role of the bank was negated theoretically, and the work of the bank was at a standstill and was even thrown into confusion.

Summing up our historical experiences, why is the position of the bank sometimes high and sometimes low, and its role sometimes big and sometimes small, in the national economy? The most fundamental reason is directly related to the extent of our correct understanding of commodity production and commodity exchange under the socialist term. Besides the historical reason involving the system of economic management, another important reason for the several ups and downs of the bank is that we have violated the economic laws on the issue of management of the socialist economy. First, we have violated the law that the relations of production must suit the nature of the productive forces, and have impatiently effected the transition from an underdeveloped commodity economy to the production and distribution of products. Second, we have negated the fact that commodity production and commodity exchange exist on a widespread scale in the socialist economy, failed to respect the law of values, and placed all the economic levers which are related to the law of values and material interests in opposition to the socialist economy. The mistake in our guiding ideology will inevitably result in the restriction of commodity production and commodity exchange in our economic lives, and will put the planned economy in opposition to commodity production and the use of economic levers as well as the use of the bank. Under a highly centralized planned economic mode and an all-round command-style planning, we will inevitably pay attention to the material object in planning work and not pay attention to the form of value in the use of currency as well as the bank which is in charge of the movement of currency. A unitary mode of administrative management will inevitably turn the bank into a mere role of bookkeeper and cashier. With the state monopoly of financial income and expenditure, we will inevitably pay attention only to the use of the financial channel and not to the use of the bank as a channel in the distribution of funds. The state monopoly of purchase and sales and allocation and storage in the distribution of materials will inevitably result in a credit and loan fund distribution supply system. In failing to establish a proper relationship between the bank's regulatory role and the planned economy, we will fail to



establish a clear direction in the work of the bank. Consequently, the scope of activity of the bank will be restricted. Although we can still successfully use the bank in a regulatory capacity when we are in urgent need of re-adjusting the economy, yet the regulatory role of the bank will be neglected once we have tided over a hardship. We have primarily used the economic levers which are in the hands of the bank as temporary and passive measures to meet urgent needs, and have not regarded them as long-term economic strategies for developing, organizing and regulating the socialist economy.

Our historical experiences have proved that whether or not we give proper play to the role of the bank lies in how we can establish a proper relationship between the planned economy, on the one hand, and commodity production and economic levers, on the other. Only by acknowledging the fact that the socialist economy is a planned economy in which commodity production and commodity exchange exist on a widespread scale can we consciously and fully make use of these economic levers to serve the planned economy, can the work of the bank be launched in a vigorous manner and can the regulatory role of the bank be brought into play on a popular scale.

## 2.

To correctly understand the relationship between the planned economy, on the one hand, and commodity production and economic levers, on the other, we must first correctly understand two issues. First, does the planned economy on the basis of socialist commodity production take the mode of distribution that controls the use value as the key or the mode of distribution that controls the form of value? As the various sectors, regions and economic components of the national economy are linked up by the form of value and not the form of use value, a socialist country must take the mode of distribution that controls the form of value as the key in establishing its planned economic system. Second, does the system of planned management rely primarily on a command-style planned management of quota, or does it resort primarily to the use of economic levers under a unified planning? The planned economic system in our country is founded on the basis of the movement of commodity value. Thus, the planned economy must use the various economic levers which are essentially related to the movement of value and which can affect the changes in the movement of value, and must not rely primarily on an administrative command-style quota management that has very little to do with economic interests. Currently, we must solve properly two problems in the reform of the system of planned management: The first one is to reduce the scope of command-style planning and expand the scope of guidance-style planning and market regulation. We must implement command-style planning on important products and important enterprises which are related to the national economy and the people's livelihood. With the above exception, we must, in principle, gradually relax our control over the other areas. The second one is to carry our regulation and control by means of economic levers. After the scope of guidance-style planning and market regulation has been expanded, in order to enable the micro-economic activities of the enterprises to meet the demands of the macroeconomic plans of the state and not get out of control, we must make comprehensive use of our economic measures, and formulate corresponding economic laws and regulations to strengthen macroeconomic control, management and guidance.

After we have clarified the above two issues, we will have found the key to correctly handling the relationship between the planned economy and the regulatory role of the bank. The movement of value, the economic levers and the planned economy are objectively linked together in essence. They are not antagonistic to but are unified among one another. Practice through the years has proved that, without controlling the value form of the currency and without using the economic levers, the planned economy will not be able to embody the law of a planned and proportionate development and will not be able to attain the goal of planned management. Our economic lives are changing daily and products are many and varied. If we completely rely on the use value unit and use the command-style planned quota and administrative order and control, we cannot bring out the superiority of the socialist planned economy. Inversely, we will cause production to be divorced from the needs of the market, which will result in sustained large-volume stockpiling of products, on the one hand, and demand over supply involving many commodities, on the other. In respect to funds, there will be tension involving funds, on the one hand, and a large amount of funds that is held up or wasted, on the other, resulting in frequent excess monetary circulation on the market. Economic levers and economic interests are closely related. Using economic levers, we can link the planned economic targets up with the economic interests of the various sectors, regions, units and individuals. Through linking up with economic levers to guide the direction of investment and regulate the production of various categories of products of an enterprise. If we sever the relationship with economic interests, we will not be able to flexibly transmit to the higher and lower level the demands made by our plans, will not be able to take into rational consideration the economic interests of the state, the collective and the individual, and will not be able to effectively bring into play the enthusiasm of the producers. Likewise, the planned economy will also become divorced from our everchanging practical economic lives, and the demands made by the plans will come to nothing.

The relationship in essence among the value form of the currency, the economic levers and the planned economy has pointed out clearly that we must realize the following two changes in the reform of the system of planned economic management at present: The first is to change from the former mode of distribution, which primarily controls the use value, to the mode of distribution which primarily controls the value form. The second is to change from the former mode of distribution, which primarily controls the use value, to the mode of distribution which primarily controls the value form. The second is to change from the former mode of management, which primarily utilizes a command-style planned quota, to the mode of management which primarily utilizes economic measures. These two changes imply that the socialist economy is in urgent need of a regulatory system which can manage, distribute and control the value movement of the whole society in a unified manner. This system should consist of diverse regulatory organs, with the bank as an important regulatory organ. This will be realized in a more and more obvious manner in practice.

Why can the bank be qualified for such a heavy responsibility of regulating our socioeconomic lives? This is because the bank itself embodies the function of regulating the process of reproduction. This function is derived



from the basic characteristic of credit as well as the economic relationship reflected by this characteristic. In the past, this point was precisely ignored in theoretical research. In analyzing Marx's viewpoints on loan capital, people have understood more the aspect that exposes the essence of capitalism, but have studied less about the law of its movement. In particular, insufficient study has been done on the intrinsic relationship between loan capital movement and the movement of social reproduction as well as its negative role on the process of reproduction. Thus, a correct understanding of the general law of how credit regulates the economy is lacking. In fact, on the question of loan capital, besides analyzing the relationship of exploitation of the working class by the capitalist class which embodies the characteristics of the capitalist mode of production, Marx also analyzed another important economic relationship: the role which loan capital plays in regulating and controlling production activity. This is because monetary capital itself represents a kind of authority. Using ownership authority over monetary capital, the monetary possessor can determine the extent of rights to use the monetary capital he will transfer to another person, determine the length of time of this transfer and the chips for this transfer, namely, the interest rate. With the high degree of socialization of production and the development toward a centralized and monopolized bank capital, this regulatory role has become increasingly expanded through the bank--this ingenious and complex organ. The bank continues to increase its ability to interfere with and control social production and becomes an important organ in regulating our socioeconomic lives.

The fact that the bank becomes a regulatory organ in our socioeconomic lives is not the subjective will of any banker, but is determined by the universal law that credit regulates the economy. This law exists in a socialist society. The capitalist banking system has provided the existing form and necessary measures for the socialist country to regulate and manage the economy. It was precisely on the basis of this understanding that Lenin put forth the glorious thinking of using the bank to regulate our economic lives that are organized according to the socialist mode.

In sum, in organizing a socialist planned economy, we must make use of economic levers as regulatory measures. The socialist bank has put forth the existing organizational form and regulatory organ for making use of economic levers to regulate the economy. Thus, ascertaining the regulatory role of the bank in the national economy and giving full play to the regulatory role of the bank are objective necessities for the socialist planned economy.

3.

In the new period of socialist modernization, we should concentrate on the question of how to bring into play more effectively the regulatory role of the bank in studying the direction of reform of the bank. Just as Comrade Deng Xiaoping has pointed out, we should enable the bank to truly become the lever for developing the economy and renovating technology.

Since the economic restructuring, we have encountered many new changes in banking work. The primary ones are as follows:

A. Great changes have taken place in the system of fund management. With the increase in enterprise income and expenditure and individual income and expenditure, in particular, with the rapid increase in the monetary income from collective and individual economic units and peasant specialized households and economic integrated bodies, the bank has increased its ability to collect and distribute funds. While the amount of bank savings totaled some 7 billion yuan in 1978, it was increased to over 40 billion yuan in 1983.

B. Great changes have taken place in the channels of fund distribution. Since the restructuring of the economic system, there have been changes in the composition of self-raised funds by enterprises, financial appropriations and bank loans, the three parts that constitute the gross amount used to increase the fixed assets and circulating funds. Of the three, the percentage of bank loans has risen from 21.6 percent in 1979 to 32.6 percent in 1983, which has surpassed the percentage of financial appropriations.

C. The large-scale development of commodity production and commodity exchange, in particular, the development of the rural economy, has required the bank to concentrate and distribute funds to support the expansion of commodity production and commodity circulation.

D. Diverse economic forms have appeared. The cooperative economy and individual economy have developed very rapidly. State capitalism has also appeared. In spite of the fact that the state can regulate funds through taxation, it cannot appropriate the funds needed. Thus, the bank has collected funds and issued loans in support of development and carried out supervision and guidance of their business activities.

E. The forms of the responsibility system in economic management are many and varied. The state-run enterprises have further given a free hand to adopting diverse forms to organize production, supply and sales. The small state-run enterprises and service trades have carried out contracting and assumption of responsibility for their own profits and losses. Their deficiency and surplus need to be regulated by the bank and their direction of production and business need to be guided by the bank.

All these new changes tell us that the essence of the reform of the bank lies in strengthening and expanding the regulatory role of the bank, adapting the regulatory methods of the bank and setting up a complete banking regulatory system.

In light of the essential demands made on the reform of the bank, we must re-study the question of the position of the bank in the national economy. In the past, we used to say that the state bank was the center for the three major activities of credit and loans, account settling and cash payment and receipt. How should we look at the bank today? The "center for the three major activities" do exist objectively. However, the "center for the three major activities" fails to give a complete description of the position and role of the bank in the national economy. This is because the "center for the three major activities" only reflects the phenomenon without showing the intrinsic relationship between the bank and the economy and without reflecting

the essential characteristics of the position and role of the bank. That is to say, in the past, our study of the question of the position and role of the bank only focused on the credit activity itself and neglected the study of the bank as the center and general manager of the movement of capital in the national economy and as the regulatory organ for the various sectors and various enterprises in regard to the scale of production and the direction of production. As a result, we have failed to understand the position of a socialist bank as a regulatory and control organ necessary to socioeconomic life itself, in particular, as a regulatory organ which no other organs can replace. We were able only to simply interpret the relationship between the bank and the various sectors and units of the national economy as a loan relationship and a relationship involving payment and receipt by transfer of accounts or by cash. This way, we glossed over the relationship in essence between the regulating and the regulated, and failed to clearly explain the position which the bank should hold and the role it should play in the course of social reproduction.

The economy of the modern society is all credit economy. In our country, with the gradual deepening of the restructuring of the economic system, commodity production and commodity exchange will develop rapidly. The characteristics of a credit economy will also appear in the socialist economy. The bank is not simply a credit and loan center, an account-settling center and a cash payment and receipt center. More importantly, it will inevitably be the important regulator of the national economy. Through its function as the "center for the three major activities," the bank will shoulder the tasks of managing, supervising, regulating and reflecting economic activities. In the future, the regulatory role of the bank in the planned economy will be primarily manifested in the following aspects:

First, through fund distribution, the bank will control the total amount and structure of funds for the whole society. Its important aspect is to promote and regulate the major proportionate relationships between accumulation and consumption, newly rising industries and traditional industries, the import of equipment and assembly of equipment at home, advanced technology and applicable technology, and state-run economy and jointly-run economy by collectives, individuals and foreign investors.

Second, through the general sluice gate of controlling monetary supply, the bank can regulate the total amount of monetary supply and guarantee a balance in finances, credit and loans, materials and foreign exchange. In the past, we only talked about the bank as the general sluice gate of currency issuance. This is not the complete picture. This is because, in practical life, besides cash supply, there also exists the monetary supply involving transferrable savings accounts. Concentrating the general sluice gate of monetary supply at the central bank, we can effectively utilize the tight and easy money market to regulate the macroeconomy.

Third, through expanding the scope of loans, the bank can increase the channels of loans, vary the types of loans, readjust loan interests, improve account-settling methods and provide diverse regulatory measures for the planned economy. On the three levels of command-style planning, guidance-style planning

and market regulation in a planned system, the bank can, on the one hand, support command-style planned production in supplying funds and offering convenience in account settling; reflect through news feedback the changes in the implementation of the plan and the shortcomings of the plan itself so as to change the quantity and direction of the supply of funds, implement remedy programs, revise, readjust, supplement and improve the plan through reforming interest rates and the mode of account settling; and effect the relationship between the plan and the process of reproduction in reality. On the other hand, the bank can make use of the control of the flow of funds, the direction of flow and interest rates--high or low--to transmit the demands of macroeconomic policy decisions to the production enterprises under guidance planning and market regulation, provide the motive power for obeying a planned guidance in production, and guide the scale and direction of production of the enterprises onto the orbit of macroeconomic policy decisions.

Fourth, through management of the various monetary organs and modes of monetary exchange throughout the country, the bank has provided a flexible regulatory organ for our economic lives. With the diverse development in our economic lives, such diverse credit forms as commercial credits, state credits and consumption credits as well as diverse collective investment channels, such as stocks and bonds, have appeared one after another. The horizontal comprehensive mode of funds has provided spontaneous regulatory organs for the economy. Through legislative and economic measures and administrative participation, as well as appropriate guidance and management, the bank can change these spontaneous regulatory organs into conscious regulatory organs under the bank's control.

In order to bring into fuller play the role of the bank in regulating the economy, first of all we must closely integrate macroeconomic readjustment with microeconomic readjustment. We must adopt a monetary system with the central bank as the key, the specialized banks as the main body and the co-existence of all kinds of monetary organizations, and create realistic conditions for establishing a combined macroeconomic-microeconomic bank regulatory system. The central bank emphasizes macroeconomic analysis on a national scale, formulates macroeconomic monetary policies and emphasizes macroeconomic control properly. The specialized banks and other monetary organizations should also study one aspect of macroeconomic problems and, through business management, regulate microeconomic activities and support the revitalization of microeconomic activities. In respect to the regulatory activity of the entire banking system toward the national economy, macroeconomic readjustment and microeconomic readjustment should be merged into one. The macroeconomic monetary policy decisions of the central bank should be founded on the basis of the microeconomic news provided by the various specialized banks and monetary organizations, and through the specific businesses of the specialized banks and monetary organizations, be transmitted accurately in microeconomic activities. The business of the various specialized banks and monetary organizations must also take as their prerequisite the implementation of the macroeconomic policy decisions of the central bank. In this way, the bank will truly become a regulatory organ that links macroeconomic activities on one end and microeconomic activities on the other, will make sure that macroeconomic activities will not get out of control and microeconomic activities will remain vigorous.

Secondly, we must unify overall readjustment and structural readjustment. So-called overall readjustment means to readjust the major proportionate relationships in the national economy through the formulation of macroeconomic monetary policies. Through readjusting the overall scale of credit and loans, we can guarantee the needs of the state plan, on the one hand, and provide an accurate system of feedback for coordinating with supplementing and improving the plan, on the other. Through the control of the general sluice gate of monetary supply, we can control the tightness and easiness of the money market, and realize a comprehensive balance of our finances, credit and loans, materials and foreign exchange. Structural readjustment refers to the readjustment and rationalization of the industrial, enterprise, product and technological structure and the structure of the system of ownership. This is the concrete guarantee for the realization of the goal of overall readjustment. At present, there is a problem of clarifying what is more important and what is less important, what is more urgent and what is less urgent, and of coordinating between support and restriction among the various structural problems and the internal structure. Therefore, the bank must utilize structural readjustment, do a large volume of regular work of readjustment, and, through such economic levers as credit and loans, interest rates, foreign exchange and account settling, coordinate the relationship of the various above-mentioned economic structures in the system of division of labor in social reproduction, in order to realize a rational and harmonious development. After structural readjustment is properly carried out, we not only can raise economic results, but more importantly can solve problems of disharmony that are discovered anytime in the daily changing economic development, prevent a proportionate disharmony in the economy that will call for a large-scale readjustment, and enable the national economy to develop in a stable and healthy fashion.

Lastly, the regulatory function of the bank should develop in close coordination with other economic levers. The bank is not the only regulatory organ in the national economy. It must supplement other regulatory organs and establish close coordination with them in order to have comprehensive influence on the national economy. Therefore, we must coordinate the roles of the credit and loan organs, the financial organs and the price organs, and bring the role of bank regulation into play in this whole.

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## FINANCE AND BANKING

### RENMINBI BASE VALUE DISCUSSED

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[Article by Yao Xianguo [1202 0341 0948] and Zhou Renwei [0719 0086 0251]:  
"Also On the Base Value of Renminbi"]

[Text] The debate over the base value of the Renminbi [RMB] has been going for a long time; during the past few years, it again went through a few hightide developments. Let us also express some views for general discussion.

#### I. Passing Judgment on Whether or Not RMB Represents the Gold Standard

Almost all textbooks on political economy and most specialized works on the theory of money published in the country today insist that the RMB is a representation of gold. Now let us analyze the several main arguments for this dictum.

(1) Looking at it vertically, we cannot undercut history; looking at it laterally, we cannot sever the international economic connections."

Concerning these so-called connections, the logical inference is: Looking from the development of history, the RMB has developed on the basis of the currency issued by the liberated areas; the RMB was valued at a fixed ratio in relation to the paper currency of the liberated areas; the currency of the liberated areas also had a fixed proportionate relationship with the puppet legal tender, whereas the puppet legal tender was in turned connected to the British pound and the American dollar to become the appendage to the latter; both the British pound and the American dollar were the value symbols of gold; hence the RMB is also a representation of gold. Even if this inference can stand by itself, it is still predicated upon the British pound and the American dollar maintaining a fixed connection and being able to be freely exchanged. But today both the British pound and the American dollar have severed their relationship with gold; whether or not they themselves are still a representation of gold has now become problematical. If we still use this as the basis of our argument, that would be too awkward. The so-called lateral relationship means that in making an international payment one must use gold as its means. But, just as comrades holding opposite views have pointed out, international payments are made today not only in gold (and gold is in general



not used) but also in foreign exchange and other materials; why do we not say that the RMB is a representation of foreign exchange or other materials?

(2) "The RMB objectively representing gold is one thing, whether or not it is prescribed to contain any definite gold content and whether or not it can be freely exchanged is quite another." Despite the fact that the RMB contains not even any nominal gold content, it is but a question of currency policy and belongs to the category of the people's subjective conduct.

Whether or not the gold content of a paper currency is prescribed and whether or not it can be freely exchanged naturally have to do with subjective prescription, but subjective conduct must above all be constrained by objective economic movements; economic movements are themselves reflected through man's activities. The transition from one kind of monetary system to another can of course not be divorced from people's activities, this is one point. Secondly, when the RMB was first issued, it was already declared to be disconnected from gold or silver. From the point of view of the "gold faction," this is subjective prescription and does not affect the fact that it represents gold. Yet, they seem to have consistently taken the Kuomintang's currency reform as an indication of the transition of China's currency from the gold standard (actually an empty gold standard system), so that it has all along been affecting the RMB. Can we say that the Kuomintang's currency reform did not constitute subjective conduct? Thirdly, commodities that have served as currency in history are by no means limited to gold. Since gold, like the other commodities that have lost their general equivalent value status, also can no longer be taken as realistic currency material, since they all no longer participate in realistic circulation, why is paper money necessarily a representation of gold, and not of rice, cotton, clothes...?

(3) "The most important and most outstanding reflection of the relationship between paper money and gold lies in the necessity of the issuance and circulation of paper money follow the requirement of the law of the circulation of gold currency." If the circulation of the RMB follows this law, it can then guarantee price stability, "it would then be a representation of value, a representation of gold."; conversely, the opposite would of course be the case.

From our point of view, whether or not the RMB represents gold and whether or not its circulation must follow the law of the circulation of currency are two different things. The law of the circulation of currency requires the amount of currency (any currency) issued to be adapted to objective needs; paper money is no exception. The amount of paper money issued can be increased or decreased artificially, but the total value it represents has an objective limit; over issuance can only result in the diminution of the unit value of the paper money, and this is the case whether or not it represents gold. But we cannot say this in reverse, because the value represented by the total amount of paper money has an objective limit, paper money must represent gold. As everyone knows, in China's history there has never been a real gold standard; it had paper money very early, and this paper money was similarly controlled by the law of the circulation of currency; if just because of this we then say that this paper money also represents gold, that would be equivalent to saying that there is one currency, gold, and no so-called



replacements in the monetary system. Whether or not paper money represents gold is invariably controlled by the law of the circulation of currency. But under such two different circumstances, the impact of the change in gold value on the prices of other commodities is different. When paper money represents gold, the change in gold value, and hence the change in the price of the paper money, would generally affect the prices of other commodities indicated by paper money; when paper money does not represent gold, a change in gold value changes only the paper money price of gold and thereby affects the relative value of gold to other commodities but it does not have a general impact on the paper money prices of other commodities. The change in the market price of gold in the international arena today is namely of the latter kind; it is also the case of our domestic price for purchasing gold becoming raised. Hence, even though the issuance of our RMB must follow the law of the circulation of currency, it does not necessarily illustrate that it represents gold.

To judge whether or not a commodity is money should have some objective standard. This is namely what Marx said: "Money is the unity of the yardstick of value and the means of circulation." If a commodity does not serve as a yardstick of value, nor as a means of circulation in the ruling position, then it cannot become money. "In England, silver is neither a yardstick of value nor a means of circulation in the ruling position, so it does not become money. Just like in Holland, once gold loses its throne as the yardstick of value, it is no longer money" ("Complete Works of Marx and Engels," vol 13, p 113; when cited below, only page number will be given). To judge whether or not paper currency represents gold should also have an objective standard; and that is to see if paper currency can be exchanged and exchanged into which currency commodity. "If the name of the paper currency is derived from gold or silver, then bank notes can be cashed; that is, they can be exchanged into gold or silver; this is but one economic law, no matter how it is prescribed in law" (p 73). Judged against this, we should acknowledge that gold is no longer currency commodity in our country, nor is the RMB a representation of gold.

## II. RMB Is the Direct Representation of Commodity Exchange Value

Money is the form of existence of the exchange value of all commodities; this has been repeatedly stressed by Marx. When speaking of money Marx made a presentation that appears to be contradictory but actually contains profound dialectics. On the one hand, "Money is not a symbol, just as a use value is taken as the commodity itself is not a symbol" (p 38). On the other hand, Marx also repeatedly pointed out that money is the social symbol of exchange value and "the material symbol of exchange value." He stressed that "labor time cannot become money," and also clearly broached that "a definite amount of gold actually plays a role only in the name of a definite amount of labor time" (p 58). "It (a third thing--the quoter) represents labor time itself. For example, a piece of paper or leather represents a divisible part of labor time" (ibid., vol 6, pp 88-89). In order to grasp Marx's original meaning, the key lies in understanding money as a kind of social relationship, but one that is manifested in a material form. Therefore, money is the material symbol of exchange value; it has its own history of development. When money is exchanged for commodity, it in essence is an exchange between a definite

amount of labor time and another definite amount of labor time, but this exchange cannot be directly measured by labor time itself; otherwise, money would have become a labor certificate.

What is indicated by paper money as a new form in the development of money is similarly this kind of economic relationship and similarly a social symbol of exchange value; what is different is that metal money is a material symbol of exchange value, whereas paper money is a paper symbol (pure symbol) of exchange value. The transition from material symbol to pure symbol is an inevitable development of commodity economy, and its fundamental cause is the expansion of social production and social exchange which made it impossible for any currency commodity (including gold) to adapt to meet the attendant needs; but metal money, as the conceptual and circular symbol of the yardstick of value provides objective feasibility for the transition from a metal money system to a pure paper money system. Marx's two passages may provide us with this enlightenment: "In fact, the commodity that is used as exchange medium is only gradually turned into money and turned into a symbol; after this situation takes place, this commodity itself can be replaced by its own symbol. Today, it has become the recognized symbol of exchange value." "In social development, while such symbols emerge, there appear also materials increasingly suitable for these symbols; but later on, society again strenuously cast off such materials" (ibid., pp 89-90); gold used to be a material suitable for such a symbol precisely because the production and distribution of gold could not catch up with the general needs of commodity exchange and hence became strenuously cast off again by society; the result was its replacement by a paper money that cannot be cashed. At present, along with the development of production and progress in science and technology, various means of transfer and "electronic money" are used a great deal, so that even paper money has become an object which society is trying to "strenuously cast off."

If other paper monies have undergone a process of becoming connected to, and then separated from, gold, then the RMB has come into being by staying away from gold from the beginning as a social symbol of commodity exchange value. How, after all, does the RMB play its social function as the direct representation of exchange value? It seems that we can look at this from the following two aspects:

(1) In a case of individual exchange, the RMB manifests the exchange value of a commodity by other commodities for which it can exchange. A tea cup exchanges for 1 yuan of RMB; here this 1 yuan represents any commodity equivalent to the value of a tea cup, or 10 jin of rice, or 1 jin of cotton, or 2 chi of hemp cloth, and so on. These other commodities can all become the materials for indicating the value of a tea cup. The case of the RMB is precisely making such an exchange ratio independent and manifesting it with a definite amount of itself (1 yuan) and thereby turning itself into a representation of the exchange value. Some may reproach by saying, does this not make it an extended form of value? Actually that is not the case. First, whether it is an extended form of value or a general form of value depends on whether or not a general material of equal value exists. Marx explained this very clearly: "In the process in which commodities manifest themselves in the price of gold through their own value, they at the same time reflect gold as

the yardstick of value, and thereby reflect it as money. If they entirely use silver or wheat or copper to measure their own value, and thereby are reflected in the price of silver, wheat or copper, then silver, wheat or copper becomes the yardstick of value and hence a general material of equal value" (p 56). In the case of individual exchange, all commodities are exchanged with the RMB and manifested in RMB value as a paper money; the RMB is the only general material of equal value, and of course not a form of extended value. Second, the value of all currencies can only be reflected through the amount of commodities exchanging with themselves, this is so even in the case of gold. Marx clearly pointed out: "The extended representation of relative value, or the indefinite series of a representation of relative value, becomes the special form of relative value of a currency commodity. This series has now been socially provided in commodity price. When we read the prices in a trading chart backward, we would see the amounts of currency value reflected in various kinds of commodities" (Das Capital," vol 1, p 113). A paper money does not itself have any value, where it uses the yardstick of value it can only use the value of the commodities for which it can exchange to indicate the value of another commodity. When a paper money represents gold, the value of that paper money is reflected in the value of gold itself (and the value of gold is in turned reflected in the commodity series for which it can exchange); after the connection between the paper money and gold is severed, the value of the paper money is then directly reflected in the commodity series ( just like at the time when gold served as money). This is precisely the difference between paper money as a representation of gold and paper money as the direct representation of commodity exchange value.

When paper money plays its function as the yardstick of value in the case of individual exchange, the amount of value represented by each of its units is of little consequence; the RMB has changed its nominal value; with the original 10,000-yuan denomination equal to the 1-yuan denomination today. This is a change in price standard, which in no way affects the normal progress of circulation. But once the price standard is determined, efforts should be made to maintain the stability of the unit value of the currency; otherwise the credibility of the currency would become affected, resulting in chaos in our economic life.

(2) Generally speaking, the total amount of the RMB issued represents the amount of value of abstract money commodity objectively required by commodity circulation in society, "gold is circulated because it has value, but paper has value only when it becomes circulated." This is the difference between gold and paper. Precisely because paper has value only when it becomes circulated, therefore whatever amount of "money commodity" is objectively required to be put into circulation for the smooth progress of commodity circulation is also the amount of value represented by the issuance of the paper money. However, the "money commodity" here is not necessarily gold, nor any other concrete commodity, but the total amount of commodity in the form of relative value, namely the divisible part that helps realize the total amount of commodity --as, when divided by the speed of the change in the form of commodity, the times of money circulations are thereby derived. Overall, paper money manifests itself as the substitute of this abstract money commodity, and the amount of its total issue is hence determined by the following factors: (a) the amount of commodities that all need to become

realized through exchange; (b) the proportionate relationship of value that takes shape on the basis of the respective internal values of these commodities; (c) the price indicator of the paper money; (d) the speed of change in the form of the commodities. The first three constitute the total amount of prices of the commodities; when divided by (d), they constitute the value of the abstract "money commodity", which is also the objectively required amount of paper money issued.

From this, we can see that paper money represents the exchange value of all commodities; it is reflected through two proportionate value relationships, one of which is the proportionate value between one commodity and another commodity through the representation of paper money in the case of individual exchange, which may well be called "minor proportionate value." The RMB cashing unit determined in our early post-liberation period may be taken as a concrete manifestation of this kind of proportionate value. The other is the ratio between commodity exchange value and the total amount of paper money issued, which we call "major proportionate value." These are both mutually connected and mutually interdependent with each other; the "minor proportionate value" provides the "major proportionate value" with a calculating standard so as to forecast the amount of paper money issuance, whereas the "major proportionate value" provides the "minor proportionate value" with an objective basis for stability. If the amount of issuance exceeds this objective limit, inflation would result. Under extreme circumstances, the paper money would lose its status as the representation of commodity exchange value, while what takes its place may not necessarily be metal money, and can very well be all sorts of common materials. In both pre-liberation China and post-war West Germany, barter trade appeared. This also proves that a paper money that cannot be cashed is not necessarily the representation of a certain money commodity.

The "gold faction" often cites the following passage of Marx as the basis for denying paper money as a direct representation of commodity value: "On the surface, value symbols directly represent the values of commodities; they are not reflected in the symbol of gold but in the symbol of exchange value which is merely reflected in price but which actually exists only in the commodity; however, this superficial reflection is erroneous; a symbol of value is directly merely a reflection of price, and hence a symbol of gold; only indirectly is it the symbol of commodity value" (p 105). In reality, if we look at it in the proper context, Marx did not say that paper money can only represent gold, but "for the sake of simplicity, I have everywhere in this book assumed gold to be the money commodity" in order, under that premise, to emphatically explain the following two points: First, value is a social relationship, it can only be represented in a value form. "A certain amount of gold does not necessarily represent the proportion of a value, neither does the symbol which takes its place" (ibid.). If we talk about the value of a commodity or the value of a paper money on the basis of the relationship between the paper money and a certain commodity, we can never get things straight; because value can only be represented through the relationship between commodities; here there is only one commodity (paper money in itself has no value), and no value relationship can be formed. Only when this paper money represents other valuable materials (either gold or other commodities) and establishes a relationship with this commodity can there be a value

relationship between the two, and only then can the paper money represent the value of this commodity. When we speak of the "minor proportionate value," we proceed from this very point; this is also the reason why we stress that paper money is a representation of exchange value and not of the value of commodity as the non-gold usually suggests. Second, Value symbols come about through the process of circulation itself and not through negotiations or intervention by the state. Marx subsequently cited Russia's Gebi [?] as an example to illustrate how "Russia has provided clear examples of the natural birth of value symbols"; but in Russia at that time, what was used as money was just not gold but animal skin and leather goods, and stamped small pieces of processed leather (Gebi [?]) were the very representation of these animal skins and leather goods. If Marx's words cited earlier were meant as an explanation of how paper money (value symbol) could only be a representation of gold, would this not have been contradicted with the actual case he cited? Of course, Marx has really more than once said that only when paper money represents an amount of gold can it become a value symbol; this has to do with his presumption; he has also pointed out simultaneously: "An amount of gold, like an amount of all other commodities, is also an amount of value" (*Das Capital*, vol 1, p 148). This explanation is not meaningless. Therefore, so long as we clearly recognize paper money as a representation of a certain amount of value in reflecting the value of a commodity, in indicating the value ratio between commodities, we should not have violated Marx's original intention. Should we think only by insisting that the RMB (paper money) is a representation of gold can we be considered as upholding Marx's money theory, that would be hardly proper.

### III. The Value Base of RMB and Stable Currency

Both the "gold faction" and the "non-gold faction" think that the purpose of studying the question of the value base of the RMB is to stabilize our currency and stabilize our prices, and they all affirm the practical approach that we issue our currency on the basis of large quantity of goods and supplies; they think that so long we insist on economy in issuance and keep the amount of our currency issuance in a definite ratio with the amount of our commodity increase, we are bound to be able to stabilize our currency and our prices. Hence, the question is, in the main, not what we should do but what is the theoretical basis for doing it.

We also agree with this approach of keeping the issuance of our currency in a proper ratio with the amount of our commodity increase, because practice proves that this is something that we have put into effect with results. But this approach does not necessarily indicate the RMB represents gold. This approach directly puts the issuance of our currency into a connection with the amount of commodities in our society while it needs neither to determine the total amount of gold required by our commodity circulation nor to determine the gold content of our unit paper money; it illustrates precisely how paper money, with its relationship to gold severed, can still regularly stabilize our currency and prices. Then, does the RMB represent a definite amount of value (necessary labor time in society)? Also no. If paper money directly represents a definite amount of labor time, then it must continue to reduce commodity prices along with the rise of labor productivity; this is not beneficial to economic accounting and also not in conformity with the ordinary



concept of currency stability. According to this policy, even if prices do not rise, or even drop, if we cannot catch up with the margin of decrease in the amount of commodity value resulting from the rise in labor productivity, we still end up with a currency devaluation whereas the practical approach is precisely contrary to this. We think that this approach of keeping the issuance of our currency in a ratio with the our commodity increase is actually based on the RMB representing commodity exchange value.

In order to explain this point, we must first of all understand clearly what is meant by "currency value stability." Here involved is the relationship between value, exchange value and currency value. Marx, when he mentioned the quantitative prescriptiveness of the form of relative value" in chapter I, Volume 1 of Das Capital, "took the equation "20 yards of burlap=1 jacket" as an example to illustrate the actual change of the amount of value cannot be clearly, nor completely, reflected in the relative representation of the amount of value, that is, the the amount of relative value; even if the value of the commodity does not change, its relative value can still change. Even if the commodity value changes, its relative value can still not change. Finally, the simultaneous change of the amount of commodity value and the relative representation of this amount of value entirely need not be consistent " ("Das Capital," vol 1, p 69). The reason why there is such inconsistency lies in the fact that the relative representation of value does not depend on the change of the internal value of a certain commodity but on the simultaneous change of both.

If our country exchanges the commodity B on the right side of the equation into gold, the nature of the matter by no means changes. Because "the secret of the form of all values is hidden in this simple value form" (ibid., p 62). 20 yards of burlap=1 ounce of gold; if labor productivity is raised by 100 percent, then the internal value of both gold and burlap is reduced by half; but their relative value is by no means changed; then 1 ounce of gold can still exchange for 20 yards of burlap; that is, it is "worth" 20 yards of burlap. Under such circumstances, can we say that the "currency value" of gold has changed? Of course not. Therefore, the standard by which the currency value is measured does not lie in the socially necessary labor time spent by gold itself being the same but in its relative manifestation; that is, by the quantitative ratio it is exchanged with other commodities; the change in the internal value of gold must go through a change of the ratio of exchange; only thus can its "currency value" become indirectly affected. The case of paper money is the same. The so-called value of 1 yuan of paper money is the amount of commodity exchanged for it, also its purchasing power. If its purchasing power decreases, it implies that its currency value has increased; conversely its currency value has decreased. The reason we examine the extent of value with a comprehensive price index lies precisely here.

Proceeding from this point, we can see that the approach of keeping the issuance of paper money in proper proportion to the increase in the total amount of commodity precisely tallies with the theory of paper money directly representing commodity exchange value, because, as has just been stated, paper money in general represents the total amount of abstract currency commodities; such abstract commodities are but a divisible part of the total amount of the commodities; hence, general commodities are on either side of the form of

value. Then, we can entirely suppose the labor productivity of the commodities on either side increases or decreases by the same ratio; this way, the change in commodity value does not necessarily change its relative value, nor currency value. The main difficulty to be solved in organizing currency circulation according to this theory does not lie in the "major proportionate value" but in the "minor proportionate value." Because the proportionate value between various commodities depends on the situation of change in their respective labor productivity; when the direction and degree of change in labor productivity are not consistent, this would cause their respective proportionate relationship of value to change, and thereby lead to price change. This then requires us to go through the approach of accommodating both increase and decrease in order to make the directions of both price change and value change consistent with each other. But the total amount of social use value is increasing, and, calculated according to the new price system, makes the total amount of commodity prices also likely to increase; because we presume the change in labor productivity of "currency commodities" are consistent with the change in labor productivity that realizes those commodities. Hence, there are two factors which need to be considered; one is the increase in the total amount of commodity prices, and the other is the number of times of currency circulation. If the amount of currency issuance is increased on the basis of this, there would then be a material guarantee, which tallies with the objective requirement of commodity circulation. At this time, even though the change in the "minor proportionate value" tends to cause the unit paper money to change on the purchasing power of certain concrete commodities, viewed from the entire society, currency increase and actual commodity increase are in accord with each other; both currency and price can have their basic stability guaranteed; this is precisely where we have succeeded in our practical approach in the past.

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## FINANCE AND BANKING

### RATIONAL USE OF FOREIGN FUNDS IN HYDROPOWER CONSTRUCTION DEBATED

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[Article by Li Jiahu [2621 1367 4375]: "Issues on the Rational Use of Foreign Funds in China's Hydropower Construction"]

[Text] Insufficiency of funds has currently become a major problem in developing hydropower. As a solution, no doubt we must first rely on the people of the whole country to increase production and economize and accumulate construction funds. However, we must also strive to make use of some foreign funds that can be utilized. Some foreign countries which use foreign funds to construct hydropower stations have clearly achieved economic results and are worthy for us to use as reference and emulate.

In order to use foreign funds rationally, we must first overcome the ideological tendency of closing the country from international intercourse and refusing to take out foreign loans. However, we must also prevent arbitrary borrowing of foreign loans, poor management and improper use which would increase the burden of the state debt. The correct attitude should be: utilize boldly, act cautiously, make overall arrangements, and use rationally. In other words, from the time a loan is made we must think carefully, stress the four major links of "borrowing," "using," "profiting," and "repaying," make overall arrangements and strive to be able to borrow loans, use them appropriately, make profits out of them and repay them.

#### I. There Must Be Sources for Borrowing Foreign Funds

##### 1. Select Suitable Loan Organizations

The current channels for China to borrow foreign funds are: 1) loans from foreign private finance enterprises; 2) loans from foreign governments and their finance organizations; 3) loans from international financial organizations such as the World Bank. Due to fierce competition in the international money market, and the conflict of interests between governments and private financial groups, loan organizations may differ in their terms (including the loan amount, loan period, interest rate, loan fee, purchase restriction, and terms of guarantee). Based on the situation of the international money market and the characteristics of the borrowing country and loan organizations, we must seize the opportunity, strive to obtain preferential loan conditions and solve the problem of shortage of funds for hydropower construction.

We should select loan organizations primarily on the basis of whether loan terms can satisfy the investment needs of hydropower projects. We hope that they can conform to the following requirements: 1) They can provide medium and long-term loans at medium to low interest or no interest. Under ordinary conditions the World Bank and some foreign governments can provide medium and long-term loans at low interest while foreign financiers are unwilling to make loans unless it is at the average interest rate. Only the International Development Association provides preferential funds--interest-free loans--to underdeveloped countries. Its loan condition is that all member states with a per capita GNP less than \$410 may be able to obtain this type of preferential loan. China conforms to this preferential condition. 2) They can provide other kinds of preferential conditions such as having no purchase restrictions and low payment expense. 3) They can provide funds with planning according to the needs of the construction of hydropower stations and will not reduce or cut off funds in case of a monetary crisis.

## 2. Various Forms of Utilizing Foreign Funds

At present there are numerous forms of utilizing foreign funds. Those that suit China's investment on hydropower construction are as follows: 1) Foreign exports credit. This form of loans suits the use of foreign loans to purchase the mechanical and electrical equipment, construction machinery and materials needed in hydropower construction. The loans are provided to us by foreign export merchants and their commercial banks and are loans exclusively used to pay for equipment and materials sold to us by export merchants. According to different loan objects, export credit can be divided into seller's credit and buyer's credit. 2) Foreign bank loans. These are credits between international banks and are made to the Bank of China by foreign banks or banking groups, which in turn can be lent out by the Bank of China for hydropower construction projects. 3) Foreign government loans. These are of competition for fund assistance from foreign governments. 4) Loans from international monetary organizations. The World Bank and its affiliated organizations--the International Development Association and International Finance Corporation are finance organizations among governments in the world and their loans are in the nature of assistance. At present, the task of the World Bank is to provide loans to developing countries which are member states (China is a member state), with a repayment period of 20 years and a grace period of 10 years. Currently, it is using the adjustable interest rate and the loan interest rate is adjusted every 6 months according to the lending rate. A 0.75 percent of handling fee is charged on the unspent amount 60 days from the signing of the loan agreement. The International Development Association provides long-term interest-free loans to the most underdeveloped member states and charges only 0.75 percent in handling fee. The loan period is as long as 50 years. The first 10 years are a grace period, 1 percent is repaid each year during the second 10 years and 3 percent is repaid each year during the last 30 years. The International Finance Corporation provides loans to private businesses of developing countries with a repayment period of 7 to 15 years and an interest rate slightly higher than that of the World Bank.

We should actively strive for using the loans from the World Bank and the International Development Association. The reasons are: 1) The capital stocks of the World Bank are owned by governments of the member states. China is a

member state; it is obliged to submit capital stocks and has the right to use its loans. We must particularly strive for more of the interest-free loans of the International Development Association. 2) After accepting the loans we can still receive technical assistance. 3) Request help in the training of China's technical and management personnel. Part of the investment on the Lubuge hydropower station which is under construction comes from a hydropower project of a World Bank loan.

### 3. Correctly Determine the Amount of Loan

By the year 2000, hydropower construction in China will require large sums of funds some of which must rely on investment from foreign funds. Other than considering the required amount in borrowing foreign funds, we must also consider the questions of whether we can borrow the amount we want and whether we can repay the loans according to schedule.

From the macroeconomic point of view, the amount of foreign funds that can be borrowed by China in a given period of time is limited by China's solvency in that period. The "solvency ratio" is frequently used in the world to measure the solvency of a country. Its formula is as follows:

$$\text{Solvency ratio} = \frac{\text{Total payment of principal and interest in the foreign debt of a government in a given year}}{\text{Total foreign exchange earnings from export commodities and services in the same given year}}$$

Under ordinary circumstances a "solvency ratio" of 20 percent is considered normal. If it is above 20 percent it shows that country has a low solvency, and if it is below 20 percent it shows that country has a high solvency. The "solvency ratio" is a chief indicator of solvency but it is not the only one. We must also consider such factors as the country's gold and foreign exchange reserves, the average time limit of its loans, the distribution of repayment amounts in different years and the efficiency of management and use of foreign funds.

We must proceed from the overall situation and long-term interests of the state in determining the total amount of foreign funds to be borrowed and cannot exceed one's ability to shoulder the debt. Every year we must clearly specify the limit for foreign loans to be borrowed and forbid exceeding the limit. The borrowing of foreign loans must be centrally managed by the state and carried out with planning. The amounts of foreign funds to be used by all departments and local authorities must be approved by the state.

For a hydropower project to be constructed with borrowed funds, we ask that the amount of foreign funds borrowed satisfies the needs of its investment as much as possible. Ordinarily the foreign loan is only a portion of the investment and the remaining funds must be raised domestically. The sum of foreign and domestic funds should be slightly higher than the total investment of the hydropower station. For example, the diversion tunnel project and some of the electromechanical equipment, construction machinery, and building materials of the Lubuge hydropower station were paid for with a loan of \$145 million from

the World Bank while the rest of the project is built using domestic funds. We must therefore study the rational ratio of foreign and domestic funds. Moreover, we must study the specific use of foreign funds, that is, we should study using the money where it is needed most, or using it to build major civil construction projects and to purchase key equipment.

Therefore, two requirements must be met in determining the amount of loan. As for a hydropower station project we ask that the need of funds be satisfied, and as for the state we ask that a normal "solvency ratio" be maintained and that it must not exceed its ability to shoulder the liability.

A positive way to meet the continual increase in the amount of needed foreign funds is to continually increase the amount of China's export commodities and services, increase foreign exchange earnings, enhance solvency and gradually increase the amount of foreign funds on this basis.

#### 4. Rationally Determine the Time Limit in Borrowing Foreign Funds

In the international money market, loans are usually classified as short-term, medium-term and long-term loans. The construction time for large and medium-sized hydropower stations are long for which we should consider long-term loans. We should earnestly study and select the best loan periods according to the internal and external conditions. They should satisfy the following requirements: 1) Funds can be assured during the period of construction of a hydropower project financed by a loan. 2) Interest cannot be too high. Some foreign banks increase the interest rate for long-term loans. We should select the appropriate loan period in order to reduce the burden of liability as much as possible. Currently in the international money market, with interest added to other loan-related expenses such as the commitment fee, administrative cost, commission and miscellaneous expense, the annual rate of burden is around 13 percent. In borrowing \$100 million the total principal and interest doubles it in 8 years. 3) During the loan period, we must allocate sufficient domestic funds, equipment and materials to insure that construction of the hydropower station will be completed on schedule.

Based on the construction time of large and medium-sized hydropower stations, interest rates and loan terms of the international money market, the loan period of a hydropower project is best to be 10 to 15 years and individual projects can be as long as 20 years.

#### 5. Seriously Select the Currency of Loan

Apart from studying the loan amount, loan period and interest in borrowing foreign funds, we should also consider the kind of currency to be borrowed in order to avoid or reduce the risk of losses from changes in foreign exchange rates. World Bank loans use the U.S. dollar as the unit. When money is drawn the other currencies are paid according to their current exchange rates with the U.S. dollar and during the repayment period the same currencies are converted into U.S. dollars for repayment. Loan agreements provide that risks and losses resulting from changes in exchange rates are the sole responsibility of the borrowing party. By customs, the loan of a certain kind of currency

must be repaid in the same currency. Exchange rates in the international money market change frequently. Some currencies which increase in value and have a relatively strong exchange rate are called hard currencies; some currencies which devalue and have a relatively weak exchange rate are called soft currencies. In borrowing foreign funds we should choose soft currencies for these reasons: 1) Most of the foreign exchange collected from China's foreign trade goods and services are soft currencies which can be used to pay for the principal and interest of loans. 2) When soft currencies devalue, China's liability will correspondingly lighten. However, interest rates on soft currency loans are higher than hard currency loans so that we must analyze the amount of increase in interest rate and the degree of fluctuation of exchange rate, weigh the advantages and disadvantages, select and use the currency which has a low-risk foreign exchange.

#### 6. Actively Initiate Conditions for Borrowing Foreign Funds

When the Chinese Government and hydropower construction units request to borrow foreign funds, international finance organizations, foreign governments and foreign banks must make a serious investigation beforehand for the benefits of their loans. They analyze that country's reputation in world financial circles by studying, for instance, the political stability of the borrowing country, the kind of economic policies being practiced, its revenue and expenditure through the years, its international balance of revenue and payments, its import and export figures in foreign trade, the amounts of its gold and foreign currency reserves, its solvency, its solvency ratio, its yearly totals of foreign funds borrowed as well as its repayment of foreign loans and its ability to administer and use foreign funds.

For the hydropower construction unit which will use the loan, the lending bank or government must study the project's design documents; economic analysis; total budgetary estimate of investment and annual investment amounts; asset, liability, losses and benefits of construction units; ability to make principal and interest repayments during the loan period as well as the organization and structure, technical resources and administrative and management capability of the construction unit.

China must further consolidate its political stability and unity, achieve balance in its international revenue and payments and balance in revenue and expenditure, balance in import and export, continually increase foreign exchange and gold reserves and further enhance its international prestige and initiate favorable conditions for the use of foreign funds.

#### II. Using Loans Must Yield Results

Rational use of foreign funds is the most important link. Numerous facts have demonstrated that we can give play to tangible economic results if we intensify the administration and supervision of borrowed foreign funds, allocate and make arrangement in a planned way and use the funds with key emphases so that financed construction projects will begin production on schedule and bring profits and foreign exchange. The contrary will result in overstocking and waste and will increase the debt burden of the state. We must adopt the

following measures in order to use foreign funds effectively: 1) Formulate plans for the use of foreign funds. Based on the need of funds at different stages by the hydropower construction projects, formulate plans for the use of loans and determine the amount and purpose of the money to be drawn at each stage. We must prevent arbitrary use of funds and must use them to construct major projects and purchase advanced equipment. 2) The timing in using a loan must be linked to the overall progress of construction of the hydropower project, as the construction of the project can be affected if it is too soon or too late. Using the loan too soon will result in accumulation of foreign funds and paying interest for nothing; and if it is too late it cannot be used and work would have been held up for lack of funds. 3) We must prepare sufficient domestic funds to be used in coordination with foreign funds. A foreign loan for the construction of a hydropower station in China merely represents a portion of the investment of that project, the rest comes from domestic investment. We must conscientiously avoid the failure to allocate domestic funds in pace with the project or according to the annual investment plan after foreign funds are borrowed, which will result in delay in construction time. 4) Formulate the detailed rules and regulations for administering and using foreign funds borrowed and intensify the supervision and management of the use of foreign funds. We must guarantee that the loan will be spent entirely on the project financed and not for other purposes and we must prevent corruption and waste. 5) Do a good job in selecting the construction contingent. We must choose construction contingents which have able and efficient leaders, strong technical strength and a good work style and assign them to undertake projects funded by foreign loans in order to safeguard the quality of construction and obtain good economic results.

### III. The Way To Make Profits (Foreign Exchange)

In China's use of foreign funds, two different forms of repayment are usually taken by the system: one is central borrowing and repayment by the state; the other is "whoever borrows whoever repays," meaning that the unit which uses a loan manufactures export commodities and uses the foreign exchange it earns to repay the principal and interest of the loan. Construction projects which use foreign funds have different characteristics. Some projects can produce export commodities after they begin production or they have foreign exchange income for services. This is known as direct generation of foreign exchange income.

Some projects cannot export their products but can serve export commodities indirectly. This is known as indirect generation of foreign exchange income. At present, China's electric power is generally not sold abroad and is still unable to generate foreign exchange income indirectly, but the electric power generated by hydropower stations after they are constructed can be used to produce export commodities of high electric consumption which earn foreign exchange indirectly.

In order to insure that financed hydropower projects can earn sufficient profits to repay principal and interest of loans after they begin production, prior to borrowing the loans we must analyze and compare interest rates and profit rates of funds after the projects begin production. If the former is smaller than the latter, it shows that a project is solvent and has good



economic results. If the former is larger than the latter, it shows that the project is not solvent and deserves to be studied further.

#### IV. Repayment of Loans Must Be Safeguarded

Loan repayment is the final link in using foreign funds. According to loan agreements, repaying principal and interest on schedule can enhance the international reputation of the Chinese Government and the units that use the loans and can enable China to continually borrow new funds. Loan repayment must stress studying and solving the following problems:

1. Terms of loan repayment. Currently there are two methods of repayments, one is annual repayment of principal and interest and the other is one-time repayment of principal and interest. The choice of method is determined according to the requirements of the lending bank and the economic and financial strength of the borrowing country or borrowing party. If one's economic and financial situation is good, annual repayment will be beneficial. It is only when there is no choice that one uses the method of one-time final repayment of principal and interest. If foreign debt cannot be repaid or if one borrows a new loan to repay old debt, debts will accumulate and result in a vicious finance cycle and increase the debt burden of the state. We must learn a lesson from such situations. Annual repayment and one-time repayment primarily involve excessive amounts of interest. Take for instance a loan of \$100 million for a certain hydropower station at an annual interest rate of 10 percent with a repayment period of 20 years. If it is repaid annually over 20 years the total amount of interest will be \$135 million and if it is paid one time at the end of 20 years the total amount of interest will be \$573 million. The latter pays \$438 million more in interest than the former. The formula for annual repayment of principal and interest is as follows:

$$\text{Annual average amount of principal and interest repaid} = \frac{\text{Amount of loan} \times \text{capital repayment coefficient}}{1}$$

In the example above, the annual payment of principal and interest is:

$$\$100,000,000 \times 0.11746 = \$11,746,000$$

where 0.11746 is the capital repayment coefficient for a loan period of 20 years at an interest rate of 10 percent. This can be looked up from a table but it can also be calculated by a formula:

$$r = \frac{i}{1 - 1/(1 + i)^n}$$

In the formula,  $r$  is the capital repayment coefficient,  $i$  is the interest rate and  $n$  is the loan period in number of years.

The formula for one-time final repayment of principal and interest is:

$$\text{One-time repayment of principal and interest} = \frac{\text{Amount of loan} \times \text{compound interest coefficient}}{1}$$



In the example above, one-time repayment of principal and interest should be:

$$\$100,000,000 \times 6.7275 = \$672,750,000$$

where 6.7275 is the compound interest coefficient for a loan period of 20 years at an interest rate of 10 percent.

2. Formulate plans for repayment of principal and interest. In general, principal and interest should be repaid annually according to the formula above which calculates the amount of principal and interest to be repaid each year during the loan period.

3. The state must actively develop foreign trade, expand export of commodities and services, increase foreign exchange earnings and must have sufficient amounts of foreign exchange and gold reserves. According to statistics, by December 1982, China's foreign exchange reserves had reached \$11,125,000,000 and gold reserves 12,670 ounces. This is the material basis for guaranteeing repayment of principal and interest in using foreign funds. Only with a solid basis can we increase our solvency and truly safeguard repayment.

Since the founding of the state, investment on China's hydropower construction has been totally dependent on domestic accumulation. With the experience of the construction project of the Lubuge hydropower station using a World Bank loan, even though construction has not been completed we can already see certain advantages in using foreign funds: 1) The amount of the World Bank loan constitutes about 30 percent of the total investment of that power station which has eased the shortage of state funds and satisfied part of the funds needed for the station. 2) We have gained some experience in borrowing foreign funds to build a hydropower station, such as using the cash conversion method [zhexian fangfa 2124 3807 2455 3127] to analyze expense and benefits and to appraise projects and using international competitive bidding to obtain contracts for some of the engineering and equipment. 3) Hiring foreign specialists for consultation on the construction of the power station. 4) Training and tempering China's technicians and administrative cadres in the course of work. In the future, under the guidance of the lines and guiding principles of the 12th Party Congress, the construction scale of hydropower stations in China will grow and their number will be greater than before so that even more enormous amounts of funds will be needed. In that situation, solely depending on domestic investment cannot totally satisfy the need of funds and we must use large amounts of foreign funds. Therefore, once we have chosen the programs for outstanding hydropower stations and have done the necessary survey and design work, after the projects are incorporated into the state plan we must actively strive for using some foreign funds to promote early completion of projects and giving play to the due benefits.

9586

CSO: 4013/59

FINANCE AND BANKING

BRIEFS

RURAL CINEMAS' BANK LOANS--Beijing, 4 Mar (XINHUA)--More than 3,000 simply equipped rural cinemas have been built in China's countryside in the last 3 years through loans from the People's Construction Bank of China and the China Film Distribution and Exhibition Corporation. Bank and corporation officials said that so far loans totaling 180 million yuan have been granted. Another 341 cinemas are now under construction. China now has about 10,000 cinemas in the countryside. Granting loans to build the cinema is a long-term program aimed at providing more cultural and recreational facilities for the rural population, according to bank and corporation officials. [Text] [Beijing XINHUA in English 1255 GMT 4 Mar 85 OW]

CSO: 4020/140

INDUSTRY

DEVELOPMENT STRATEGY FOR ELECTRONICS INDUSTRY DEFINED

SK110503 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 10 Mar 85

[Text] The provincial meeting of leading cadres of various electronics industrial enterprises, which was held in Shenyang from 7 to 9 March, discussed and defined the development strategies and priorities for the provincial electronics industry. The development strategies are: 1) We should broaden the service scale, open up a new situation in applying electronic technology, vigorously use electronic technology, in particular microelectronic technology, to renovate the traditional industry, and strive to integrate the province's development of the electronics industry with the renovation of the traditional industry. 2) We should strive to develop high-quality and top-brand consumer electronic products. At present, our focus should be placed on developing the production of color televisions, and multifunctional recorders and videocorders in order to rapidly build the province into one of the important national bases for producing color televisions, videocorders, and recorders.

The meeting also defined that this year the province should fulfill the task of producing 150,000 color television sets and 1,400 microcomputers, and popularizing and applying microcomputers in 58 projects. To attain the color television production task, the Fushun and Shenyang Television Plants imported color television production lines from the Matsushita and Victor Companies in Japan, and the installation of these lines are in full swing.

In developing the electronics industry, priority should be given to the development of color televisions, computers, integrated circuit, communication equipment, the electronic systems engineering, and softwares.

Before the closing of this meeting, Vice Governor Wang Guangzhong attended and addressed the meeting.

0608  
CSO: 4013/105

5 April 1985

## INDUSTRY

## GUANGDONG GOVERNOR ADDRESSES ELECTRONICS INDUSTRY CONFERENCE

HK110923 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 10 Mar 85

[Text] At the provincial conference of electronics industry managers, which ended this morning, provincial Governor Liang Lingguang and Vice Governor Kuang Ji hailed the achievements made by the province in the electronics industry last year, and hoped that the province's electronics industry will make greater achievements in the future.

Governor Liang Lingguang said: The electronics industry is the mainstay industry of the province, and should be developed vigorously. In developing the electronics industry, the province should grasp application to promote its development, and grasp competition to promote its advancement. The province's electronics industry must not only strive to achieve growth in its output value and quantity, but must also upgrade its technological level to provide better service in order to meet the needs of the people in their material and cultural life.

In his speech Vice Governor Kuang Ji pointed out that in upgrading the technological level of the province's electronics industry, efforts should be made to put the province's microelectronics technology, with large-scale integrated circuits as its foundation, in a leading position in the country in the next 3 to 5 years. It is necessary to change the present situation of using foreign exchange to buy parts for assembly, and to gradually change the status of importing products and manufacturing products for domestic use to that of exporting products and manufacturing products for overseas use.

At the provincial conference of electronics industry managers, which opened on 6 March, specific measures were formulated to create a new situation in the province's electronics industry.

7233

CSO: 4013/105

INDUSTRY

BRIEF

SHANDONG ELECTRONICS INDUSTRY--The electronic industry of Shandong Province achieved its best results in 1984. Substantial increases were achieved in growth, profits, and profit and tax handed over to the state. Profits showed a 91.49-percent increase, and the profit and tax handed over to the state showed a 90.87-percent increase. [Excerpt] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 16 Mar 85 SK]

CSO: 4013/105

DOMESTIC TRADE

SERVICE FACILITIES BURGEONING IN SHANGHAI

OW090258 Beijing XINHUA in English 0243 GMT 9 Mar 85

[Text] Shanghai, 9 Mar (XINHUA)--At least 20 new shops or stalls have opened every day in Shanghai for the past 8 months, making life easier for tourists and local residents alike, according to municipal authorities.

Since last July, 5,200 shops, hotels and trade companies have opened in the east China industrial and commercial center.

The city was formerly marked by a serious shortage of service facilities. Long lines were a regular feature at most local restaurants, while about 1,000 travelers a day were forced to sleep in railway station waiting rooms due to a lack of hotels.

As part of its drive to improve living conditions, Shanghai plans to increase the number of shops, stalls and other service outlets on its streets from 60,000 early last year to 125,000 by 1990.

Many factories and residents have converted streetside office buildings and homes into shops and restaurants.

About 1,000 shops offering clothing, food and other necessities have opened in the busy Huangpu District alone, with traditional and local-style foods not available in larger stores becoming top sellers.

Service teams have also been formed in 80 percent of Shanghai's residential areas. They employ more than 50,000 retired workers able to do household repairs, baby-sitting, home nursing and other domestic chores.

In the past few months, over 30 new hotels have opened near the main railway station, some of them offering special rooms for newlyweds who visited the city during the Spring Festival holiday.

CSO: 4020/143



5 April 1985

## DOMESTIC TRADE

## PROVINCE ECONOMIC COOPERATION GAINING MOMENTUM

OW112335 Beijing XINHUA in English 1633 GMT 11 Mar 85

[Text] Wuhan, 11 Mar (XINHUA)--China's current economic restructuring program is breaking down long-standing barriers between regions and departments, and "mutual" economic and technical cooperation is developing quickly, a national symposium here has agreed.

Participants believed that the growing trend toward cooperation on production, technology, personnel, materials, funds, scientific research and trade was of strategic importance in developing China's planned commodity production and establishing economic networks.

The government's policy of opening to the outside world and giving more decision-making powers to its enterprises has encouraged cooperation between businesses, coastal and inland areas and between cities and rural towns.

Statistics show that nearly 20,000 inter-provincial economic and technical cooperation contracts were signed last year--twice the 1983 figure.

China's closed-door economy, evolved by historical, political, geographic and transport factors over the years, has hindered the growth of coordinated production.

The Communist Party Central Committee at its Third Session of the 12th National Congress called for further opening and more cooperation between different parts of the country.

It encouraged efforts to "smash blockades and open doors."

More and more enterprises have come to realize that economic and technical cooperation is a must if they are to develop according to market changes and speed up technological progress.

Surveys on 30 businesses in Shenyang, a heavy industrial center in the northeast, indicate that 35.8 percent and 23.6 percent of their increased output value and profits, respectively, last year were achieved through cooperation with other parts of the country.

The Xi'an-based China "Standard" Sewing Machine Corporation operates in cooperation with a number of state and collective enterprises in Shaanxi, Hunan, Jiangsu and Zhejiang Provinces on the basis of mutual benefit and consent.

"The program has helped cut capital outlay, improve quality and increase the variety of products, and bring loss-making factories onto the right track of development," said Wu Peilun, a spokesman for the symposium on trial urban economic reform.

The corporation increased production of the famous "Standard" brand sewing machines to 830,000 last year, from 260,000 prior to the cooperation.

On the suggestion of Premier Zhao Ziyang, Shenyang and Dalian last year began to form an economic and technical cooperation zone in Liaoning Province.

Coastal cities, described as "spring board" for foreign trade, are gearing up their support for land-locked provinces and undeveloped areas.

Foshan, Quanzhou, Xiamen and Qinhuangdao are "sister" cities of Handan, a medium-sized city of Hebei Province.

Technical fairs are springing up in pilot cities, such as Harbin, Changzhou and Wuhan, where technology and research results are traded as commodities.

Wu said that China's planned commodity production would encourage wider technical cooperation along with the successful reform of the urban economy.

CSO: 4020/143

DOMESTIC TRADE

FURTHER DEVELOPMENT OF RURAL INDUSTRIES URGED

Beijing LIAOWANG [OUTLOOK] in Chinese No 34, 20 Aug 84 pp 18-19

[Article by Fei Xiaotong [6316 1321 6639]: "Push Rural Industries To Make Continued Progress"]

[Text] The period from the latter part of the 1970's until the early years of the 1980's has been an important turning point in the history of economic development in the rural areas of our country. This turning point will have a profound and significant impact on future development. It has changed the unitary structure of agriculture in which the plantation was for a long time regarded as the main part. As a result, things have taken on a new aspect in which farming, forestry, animal husbandry, sideline production and fishery have been developing in an all-round way and agriculture, industry and commerce have been put under unified management. The development of rural industries is more gratifying to us. Certain counties, cities and villages in the vicinity of southern Jiangsu, the Hangzhou-Jiaxing-Huzhou area, the Zhujiang Delta and the Shandong Peninsula where progress has been made at a faster pace are relying no longer on agriculture but on industries. In the 2 consecutive years of 1983 and 1984 in particular, the issuance of the two documents No 1 of the party Central Committee concerning rural work and the announcement of the document of the party Central Committee and the State Council concerning the opening up of new prospects in the rural areas have guided the development of rural industries toward a new stage. Rural industries in some provinces and municipalities have been developing at a high speed that has been unprecedented and irresistible. Nevertheless, we must take note of the fact that some new factors have emerged in the development of the situation as a whole. First, there is the emergence of the new technological revolution which will bring about a worldwide innovation in both industrial and agricultural production and alter the process of world economic development. Second, there is the reform of urban industries which will bring the national economy of our country into a benefit-oriented orbit and thereby bring about a change in the system of business administration which will provide enterprises with a new motive to promote development. When all these come together, a new challenge will take shape.

In a situation like this, what can rural industries do? I feel that we must pay close attention to problems in the following 12 areas:

1. The existing industries must be readjusted. The direction for developing industrial products must be determined in accordance with the demand on the market and the source of raw materials. It is not advisable to set up new factories or to produce new products regardless of these factors. Existing industries must be readjusted and restructured in accordance with the above-mentioned needs.

2. Utmost efforts must be made in order to establish contacts with large and medium-size industries in the cities so as to strengthen coordination between cities and villages. The principle of "letting the big ones help the small ones and the small ones supplement the big ones" can be truly realized only after rural industries have received assistance from large and medium-size industries in such ways as administrative assistance, financial support, technical guidance and the strengthening of communications. Contacts may be established in a variety of ways. In operating an enterprise, methods such as joint ventures, relocation of an existing facility and the unitary management of product manufacturing and marketing may be adopted. Only in so doing can products be brought directly or indirectly into the orbit of a planned economy that is advantageous to strengthening the stability of raw materials and communications channels.

3. It is necessary to do a good job in information service. Rural industries in the past relied mainly on the belief in the "easy turn of a small boat" to hold the ground and develop the national economy of our country. But a turn is mainly guided by information. The validity of information and the quickness of reaction have a direct bearing on the prosperity or decline of an enterprise. Especially after the products of the rural industries have entered into large-scale domestic or even international markets, limited information collected by the factory or enterprise is far from being able to satisfy the needs of operating an enterprise. For this reason, it is necessary at present to establish a nationwide information center to render information service in different areas and for different industries.

4. Rural industries must establish broad connections with intellectuals. At present, the worldwide revolution of science and technology is centered on satisfying the people's need for diversification and labor savings, which result from the competition of knowledge and intelligence carried out by means of electronic technology. The impact of this revolution on enterprises is that products will be transformed from the system of the single-product economy and large-scale production to diversified and small-scale production and that the size of enterprises will be transformed from large to medium-size and small ones. Medium-size and small industries will become vital new force of the new industrial revolution. The enterprise size and the product structure of the rural industries are in keeping with the trend of the new technological revolution. It is expected that rural industries will probably play a

positive role in this revolution. However, very few people in the existing rural industries possess professional knowledge. In order to resolve this contradiction, it is necessary for them to establish contacts with intellectuals in society in order to rely on them to produce new products or even the most advanced products, to improve the management and administration of enterprises and economic results and to train qualified personnel for their own use. In order to arouse the enthusiasm of intellectuals to serve the rural industries, we must provide them with favorable conditions so that they may engage in scientific research and strive for inventions. Generous remuneration must be given to them to reward their industrious labor. In this respect, the rural industries must be willing to part with money either to buy their technology or patents or to deduct a percentage from the gross income on a pro-rated basis to benefit the enterprise, the worker and the inventor. Special attention must be paid to preventing the organizations they work for from pocketing, under one pretext or another, a part of the intellectuals' income. Certain policies must be implemented to serve as a guarantee in order to free them from doubts and misgivings and to encourage them to devote more of their energy and zeal to socialist construction.

5. It is necessary to do a good job in "utilizing the residual heat." In our country, a large number of intellectuals and skilled workers retire every year. They have not only rich knowledge but also valuable practical experiences. Rural industries must be bold in and adept at utilizing these veteran people of ability. It is reasonable to give them generous remuneration for contributions they have made to rural industries. With regard to administration, it is not advisable for us to interfere. Moreover, the pension and welfare under the labor insurance plan which they are originally entitled to have must not be canceled.

6. It is necessary to run stock companies as an experiment. The accumulation of rural industries has already experienced two different periods. In the beginning, we relied on agricultural accumulation to set up industries. Afterwards, we expanded reproduction through the accumulation of labor. We now have entered the third period in which we rely on our own profits to accumulate capital for the purpose of a further expansion of production. However, the capital of a single enterprise is, after all, very limited and there are many enterprises which have surplus capital as well as a number of peasants who have a sum of surplus capital as well as a number of peasants who have a sum of surplus money on hand. It is necessary to try every means to regulate and utilize this floating capital in a broader range. I wonder if it is possible to set up investment companies as an experiment in order to let peasants and enterprises become shareholders of investment companies and thereby encourage capital to flow into the cities and the underdeveloped areas.

7. It is necessary to have an interchange between eastern and western China. In our country, the distribution of resources is uneven and there is an imbalance in economic development and the development of rural industries. In eastern China, certain foundations have been laid, while in western China, development is just beginning. Although eastern China has gained an upper hand in both technology and capital, the lack of resources has hampered further development. In western China, although it is rich in resources, effective development is restrained by the lack of technology and capital. At present, a dialogue is occurring between the south and the north whereas the advanced north exploits the backward south. Ours is a socialist country where the situation of exploitation does not exist. However, we are required to promote in various forms a relationship of mutual help including mutual exchange, mutual coordination and mutual promotion in order to make up each other's deficiencies and to supplement each other's weaknesses. We must act as go-betweens and help them get in touch with each other so that they can complement each other and develop side by side.

8. In order to solve the problem of difficulties encountered in transportation between the cities and the rural areas and between the border areas and the hinterland, it is not advisable for us to rely merely on railways because it needs huge investments. We may consider developing highways and waterways. At present, however, highways are not very popular in our country. In order to build new highways of different grades, we must place an emphasis on the construction of superhighways to connect different regions in addition to connecting simply built highways in the rural areas. We may draw a host of residual labor in the rural areas to participate in the construction of highways and encourage all provinces and municipalities to set up professional contingents to contract for the construction of highways in different areas. The coastal provinces may export residual labor to the hinterland and border regions. These contingents must be equipped with core members responsible for planning and now it is the time to start training them.

9. In all countries, the medium-size and small industries occupy a predominant position in the economy. However, we have now not yet been able to establish trade contacts with the numerous medium-size and small industries of other countries because we are inclined to trade with other countries in large quantities, to make big deals and to run large-scale enterprises. It is necessary for the rural industries to give play to their own superiorities, to fill up this deficiency in a timely manner, to explore possible channels for establishing contacts with medium-size and small industries in Hong Kong, Japan and Western Europe, to attract foreign capital, to import technology, equipment and new products and to introduce scientific management. The coastal areas must, in particular, bring into play the superiority of the situation of opening to the outside world in order to develop exports by encouraging imports so as to form a processing zone of our country that is open to the outside world. At present, in a situation in which a worldwide



market is taking shape, it is absolutely not permissible for us to run rural industries behind closed doors. Rather, we must establish broad-range economic contacts all over the world.

10. It is necessary to do a good job in training. In order to improve the quality of rural industries, we must first improve the quality of human beings so that all workers and staff members will be able to master the advanced scientific and technical knowledge and that all enterprise leaders will become experts. For the purpose of achieving this goal, it is necessary to adopt methods of one kind or another to conduct training in order to bring up a new generation. The education department must keep abreast of the new situation to encourage all localities and industries to set up schools including institutions of higher learning. As long as enthusiasm can be aroused at the local level to raise funds to set up schools, the education department must give them support by means of supplying qualified teachers. The democratic parties may be called to mobilize intelligence in society and work out plans for replenishing qualified teachers at fixed intervals in projected directions in order to guarantee the quality of teachers.

11. It is necessary to carry out research and academic activities in the rural industries. Ever since the development of rural industries, a series of questions concerning important economic theories have come out. It is necessary for us to have a contingent to be engaged in professional research and to establish an appropriate research institution to study problems associated with rural industries. In order to organize people with lofty ideas in society who care for rural industries and who will carry out academic exchanges, we may consider establishing a nationwide rural industry research association which may hold meetings at regular intervals to discuss questions concerning the rural industries.

12. It is necessary to establish international academic contacts. In some countries, there are many experts and scholars who are well versed in social economy, science and technology and have a knowledge of medium-size and small industries. We must invite them to carry out academic exchanges, let them conduct investigations and "diagnoses" on rural industries in our country and put forward suggestions for our reference to enable us to avoid detours. This is a kind of work which we must actively carry out not only because it is less expensive but also because it has proven to be very effective.

At present, the situation of rural industries is excellent. During the first half of this year, the value of industrial output already exceeded 30 billion yuan in Jiangsu Province, which was 15.9 percent over the corresponding period of the previous year of which the rate of increase of rural industries reached as high as 32.8 percent. However, if we wish to continue opening up new prospects, it is necessary for us to pool our wisdom and strength so as to probe into questions which lie ahead of us. Only in so doing can we progress step by step. I visited northern and central Jiangsu during the first half of this year. Here are some of my humbler suggestions which are based on investigations and analyses made during my trip. I put them forward for your reference.

FOREIGN TRADE AND INVESTMENT

STRUCTURAL ECONOMIC REFORM, OPEN DOOR POLICY PRAISED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 84 pp 11-14

[Article by Qian Jiaju [0578 1367 7467]: "On Questions Concerning China's Structural Economic Reform and the Open Door Policy"]

[Text] In discussing the questions of China's structural economic reform and its open door policy, I will emphasize the open door policy. In May of this year, Premier Zhao Ziyang pointed out to the Sixth NPC: "From now on in our economic work we must concentrate on grasping well the two important tasks of structural reform and the open door policy." There is a close relationship between structural reform and the open door policy. In enlivening the domestic economy, the results have been most obvious in the rural areas. In the cities, industrial and transportation enterprise economic results are still "showing some signs of improvement, but not yet ideal." With respect to the open door policy in the special economic zones [SEZ's], Shenzhen's development has been the most outstanding. Within 5 years, Shenzhen's gross value of industrial output has grown 10.7-fold, and its financial revenue has grown 10.9-fold, which is a surprisingly fast rate. Why is it that Shenzhen has developed so quickly? The reason, aside from importing technology, is that it has carried out a series of reforms, and that it has a relatively high level of technology. For example, the same kind of construction teams that are found in the inland areas can in Shenzhen construct a one-story building in 3 days (it was formerly 5 or 6 days, but this period has been shortened now to 3 days, a rate which is already faster than that in Hong Kong) and, moreover, quality is high. In the inland areas, a building cannot necessarily be finished within 30 days. Because Shenzhen has adopted the practice of "the design must be appraised, the construction must be bid for, and the responsible unit must be contracted at all levels," and has stipulated the granting of a 10,000 yuan bonus for each day of finishing early and a penalty of 10,000 for each day's delay, rewards and punishments have been clearly separated, and the practice of not limiting bonuses has stimulated and revived the enthusiasm and creativity of the workers. It has also speeded up the rate of work, lowered construction costs and guaranteed the quality of construction. It is obvious that reform is a necessary condition for the open door policy. Where there is competition, and where the egalitarianism of "eating out of the bit pot" and the "iron rice bowl" has been smashed,

work results can improve 10- to 20-fold. Shekou has a slogan that goes: "Time is money, and results are our livelihood." "Fast" is Shenzhen's rhythm. Precisely because of this, China decided in March and April of this year to open up 14 coastal cities and Hainan Island. With the 4 original SEZ's included, this makes a total of 19. The objective is to use some of the policies and successful experiments of the four zones in these cities, in order to advance the speed of development of these cities and, moreover, to bring about the development of the interior regions adjacent to each of the cities.

From this it can be seen that structural reform and the open door policy are inseparable, and that their objective is to speed up China's economic development, and to speed up the four modernizations. But on the other hand, structural reform and the open door policy are in the final analysis two different problems. Structural reform is nationwide, with the primary emphasis on perfecting China's economic relations, improving economic results and allowing the economy to move forward in a positive manner. But the open door policy is to begin with the SEZ's and gradually expand inland, so we can still separate the two policies for the purposes of discussion.

With respect to structural reform, I believe that it is not important to solve two problems. The first is the problem of the pricing system, and the second is the problem of the wage system. China's prices are not rational. Price and value are completely segregated from market regulation, and therefore it is difficult to use the law of value as an economic lever to speed up economic development. Because prices are not rational, enterprise fortunes are uneven, rewards and penalties are not separated, and it is impossible to carry out rational economic accounting. Profitable enterprises are not necessarily managed well and, conversely, loss-incurring enterprises are not necessarily managed poorly. Moreover, because prices are reversed (while purchase prices are high, selling prices are low), the state incurs heavy losses. For a number of consecutive years, our country's agricultural harvests have been abundant, and it follows that China's financial revenues should have increased. However, because the prices of agricultural products have been kept artificially low, the situation for the Ministry of Finance has worsened. Finance Minister Wang recently reported to the NPC that in 1983 financial deficits had increased, even though last year's agricultural harvest was abundant.) This is a very abnormal situation. I believe that if the price system is not reformed, it will be very difficult to improve economic results.

The second factor influencing the improvement of economic results is that wages are irrational. This situation is what everyone knows as the practice of "eating out of the big pot" and the "iron rice bowl." If factory directors and managers do not have the right to hire and fire workers, then workers can come in but they do not ever have to leave. Good workers and poor workers are one and the same, and are considered equal whether they work hard or not. Bonuses have changed the linking of wages to egalitarianism. Previously, the phenomena of overstaffing universally

existed in enterprises. After a person entered a factory, the factory took care of him for life. The enterprises eat out of the big pot of the state, and the workers eat out of the big pot of the enterprise. If this problem is not resolved, economic results will not improve.

Through structural reform we must resolve these two problems. But these two problems can actually be divided into many kinds of problems, and the whole thing is very complex. What I want to talk about here is primarily the open door policy.

The open door policy is a definite policy of China's, and it has long-term strategic significance. In the past we established four SEZ's, and now we have also added 14 open cities. There are people who believe that to have SEZ's is the same thing as having capitalism and a capitalist economy, and that the successes of the SEZ's prove that the capitalist system is superior to the socialist system. I believe that this outlook is an erroneous one. The SEZ's are not special political zones. They are not the same as Hong Kong will be after 1997, nor are they the same as Taiwan will be after its future reunification with the motherland. What Hong Kong and Taiwan have are capitalist systems, and we permit "one country, two systems." But the SEZ's are not the same, and the leadership of the construction of the zones will be the CPC. In the SEZ's we should uphold the four basic principles, guide thinking according to Marxism, and build socialist spiritual civilization and socialist material civilization. The objective of building the SEZ's is to speed up China's socialist construction, so the SEZ's are, without a doubt, socialist. But if the so-called "special zones" are different from the zones that are not considered special, then what is so special about them? The "specialness" lies in their emphasis on attracting foreign investment and on marketing products overseas, and in their favorable policies regarding foreign investment. Foreign investment comes from individual foreign businesses and in the form of joint ventures. I believe that these, in theory, belong to the realm of state capitalism. This state capitalism is not the same as the capitalism in capitalist countries; it is the state capitalism of a socialist country, and is what Lenin called "state capitalism," for which I can expand the limits and regulate its activities." Thus, I believe that the SEZ's which are under the management (or leadership) of the socialist state, can become a comprehensive system under which the primary component of state capitalism coexists with the component of a diversified economy. In other words, the SEZ's are under the leadership of the socialist state, are confined to a definite area, and can adopt a number of special management systems, import foreign capitalism, import advanced technology, advanced management methods and advanced technology, and thus benefit China's realization of the four modernizations.

In importing foreign capital, we must guarantee foreigners a certain amount of profit; this is obvious. Without profits, foreign firms will be unable to invest in China. On this point, we must make it clear to those among the masses who have "leftist" ways of thinking that our open door policy is not a way of taking the capitalist road, but a way of using

the technology and management methods of the capitalist countries to speed up our country's four modernizations. Furthermore, we must also allow foreign businesses that invest in China in the future to obtain rational profits. This is a precondition, and without this precondition, we will not even be able to approach the question of attracting foreign investment.

There is a foreign saying: "Taiwan looks at Hong Kong and Hong Kong looks at Shenzhen." This statement is a rational one. If the socialist SEZ of Shenzhen can protect the profits of foreign investors, then the people of Hong Kong, who will have a capitalist system in the future, can put their minds at ease. Therefore, aside from giving full play to the role of the four windows (technology, management, knowledge and the open door policy), the SEZ's also guarantee the flourishing of Hong Kong's economy, and will be of benefit to the strategic significance of Taiwan's return to the motherland.

At present, the work of opening the 14 coastal cities is just beginning. In comparing the four SEZ's, the most advanced is clearly Shenzhen. Within the past year I have made three investigation tours of Shenzhen, and also have the responsibility of being the honorary chairman of the Shenzhen City Economic Institute, and it may be beneficial to take this opportunity to introduce the situation in Shenzhen. It has only been 5 short years since Shenzhen was established as an SEZ, but by the end of 1983, it had accumulated more than 2,500 business contracts with a total investment amount of \$1.8 billion, among which \$400 million worth actually came to fruition. It imported advanced technology and 25,000 pieces (sets) of equipment. Economic indicators for 1983 show a 10.7-fold increase in growth value of industrial product compared to 1978 (before the establishment of the SEZ), a 29 percent increase in gross value of agricultural product under conditions of decreasing amounts of land, a 10.9-fold increase in financial revenues and a two-fold increase in local foreign exchange earnings. In the 4 years since the establishment of the SEZ's annual indicators for the people's economy have all surpassed total figures for the previous 3 years. The people's standard of living has obviously improved and the wages of workers have increased manyfold. Of the several tens of thousands of people who in the past fled to Hong Kong, a portion have already begun to return. Shenzhen not only has full employment, but also 160,000 to 170,000 construction workers that go out to work in other provinces. Shenzhen was originally a small, poor border town, but now its highways extend in all directions. Its people live and work in contentment, and the market is flourishing. It has become a small Hong Kong, except that it does not have Hong Kong's type of gambling houses, brothels and nightclubs. The establishment of the SEZ's has stimulated a strong favorable international reaction, and foreign friends who have visited Shenzhen before believe that the special zone is the epitome of the open door policy. Cadres from a number of socialist countries also believe that building the SEZ's is "a bold idea and a creative policy."

This gives us some enlightenment: that what Shenzhen has attained, the other 14 coastal cities should also attain. And if the coastal cities can reach that point, how can it be said that the inland cities cannot reach that point? From this we can see that if only we adopt correct policies, and create a favorable investment environment, then other inland cities will also be able to achieve those goals.

What concrete conditions are necessary for a favorable investment environment? First of all there must be political stability and a peaceful and orderly society; these are essential. There must also be a continuity of policy, without constant changes. What is said must be able to be trusted, and words must be able to be accounted for. These are prerequisites. In addition, there must also be profitability; this is a question that foreign investors will want to consider. This is to say that in the SEZ's or in factories invested in by the SEZ's, proper rights must receive legal protection and not be subject to any political pressure or encroachment. If we create this kind of investment environment, it will be beneficial to foreign investors. But likewise, the results will be of benefit to both sides and, moreover, in the long term, will be beneficial to China's socialist modernization.

In these past few years, on the basis of equality and mutual benefit, we have created a favorable foreign investment environment in Shenzhen. We have already done a substantial amount of work, such as formulating certain laws ("Sino-Foreign Joint Venture Law," "Parent Law," and so on); worked on basic construction (seven opens and one leveling: opening roads, electric service, telecommunications, natural gas service, sewage service and supply arrangements, and leveling the land); implemented favorable policies, given investors favorable treatment and convenient conditions (with respect to permitting imports to be used as a means of production and a means of livelihood in the SEZ's, with the exception of wine and cigarettes, they will be tax exempt. The income tax rate has been set at 15 percent, lower than that in Hong Kong. The management personnel of foreign investment enterprises will have a relatively greater degree of freedom. Foreign businesses can hire and fire foreign personnel to be responsible for technical or management work. They can have the freedom to stipulate wage amounts in accordance with the needs of the enterprise, and they can open accounts with the Bank of China and foreign investment banks in the SEZ's, and can take care of related matters as well. Legal after-tax profits of enterprises and the regular income of foreign personnel, including those workers from Hong Kong of Macao, can be remitted back home. And if for some reason foreign enterprises have to stop their operations, their funds can be remitted back home or transferred. And finally, there will be simplified procedures for businessmen entering the zones.) Precisely because of this, the SEZ capacity to attract foreign investors has been gradually strengthened. The number of contracts signed in 1983 was 52 percent greater than that in 1982, and in the first quarter of this year it was 41.5 percent greater than in the same period of the previous year. Two years ago, those who first came to negotiate investments were primarily



from Hong Kong and Macao. In the past 2 years, this has developed to include over 50 states and regions, including the United States, Japan, the FRG, England and Switzerland, and even to include some transnational corporations.

Of course, we admit that we have not yet done enough in this area. First of all, our regulations have not been sufficiently completed. Of the many essential regulations, some have not yet been formulated (i.e., the SEZ foreign exchange law, the foreign investment bank law, and a mortgage law), and some have just been given to the higher authorities for examination and approval. Second, there is a lack of fast and flexible modern telecommunications equipment. Third, we have not yet established a good consulting organization. Fourth, we do not yet have a freely convertible currency, which would be advantageous to moving funds in and out. Fifth, we still have in our system many inappropriate rules and regulations that have an impact on the open door policy. (In Shenzhen, according to investigations, in order to move from negotiating the import of technology to actually investment and export of the first batch of products, one must go through 3v formalities, pay 19 different costs, and affix dozens of signatures. For a customer to import a car for his own use he must go through 17 different checks, and pay 12 kinds of taxes and formalities. If these obstacles are not eliminated, it will remain very difficult for us to attract foreign investment.

The operation of the SEZ's is based primarily on regulation by market mechanism, not on economic planning. Although the comprehensive plan of the SEZ's is a component part of China's whole economy, importing particularly large items will have to be approved by the central authorities, and the economic development plan of the SEZ's will have to come under what is allowed by the state plan. However, these represent macroeconomic guidance. Even the SEA's as a whole will come under the guidance of the state plan. However, with regard to the individual enterprises of the SEZ's, their activities will be carried out in accordance with the market system. All enterprises should be governed by the law of value used in market competition. The objective of implementing regulation by market mechanism lies in forming a role for the enterprises in which they will be led primarily by the market system and able to attract foreign investment. I believe that: 1) there must be a freely convertible currency, with a floating exchange rate (a special zone currency), that will let us realize the free import and export of funds; 2) there must be a fairly complete banking and credit system, including the establishment of a stock market, which issues stocks and bonds; 3) we must permit banks to establish branches in the SEZ's, and to develop business; 4) we must eliminate the fetters of the old price system, and facilitate the speedy formation of a price system that will be regulated by the power of the market and that will be able to adjust to world market prices; 5) we must strive to reduce administrative interference, carry out the separation of the party from the government and the government from the enterprises, and operate in strict accordance with economic law. The government functional departments must carry out management according to laws and regulations, and must rely on economic means to carry out regulation.

At this point the above-mentioned conditions do not yet exist in concrete forms, or are now in transition. Some of them are still under investigation. What we hope our foreign friends will understand is that what China has been implementing for the past 30 years has been a feudal economy based primarily on a smallholder agricultural economy. We now want to change to an open economy base primarily on commodity production, and for this there must be a period of change. In the past, we had many experiences and methods that led to a restrictive economy, but our methods and experiences in dealing with enlivening the economy are relatively few. From this day forward, in carrying out our open door policy we must first liberate our thinking, and change the traditional methods we have used in the past. For this we need time, and we need patience, but our policies will not change because in this there is no alternative path to follow.

China has a population of 1 billion. It has an unlimited market (though at this point we are referring to its potential strength). It has abundant natural resources, and hardworking and courageous citizens. Only if we uphold our policies of opening up to the outside world and enlivening the domestic economy as long-term policies will China's economy definitely be able to take off, and will foreign investment in China have an unlimited future. A China with a developed economy, a rich life for its people and an open market will be of benefit to Asia, to Japan and to world peace. In bringing in foreign investment, we must definitely make sure that both sides benefit, not just one side. Our experiences in this area are quite insufficient, and we must take advantage of Western and especially Japanese experiences in this regard; however, we have complete faith in the future of China's economic development.

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FOREIGN TRADE AND INVESTMENT

SILK EXPORTS EXPECTED TO INCREASE IN 1985

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[Text] Hangzhou, 9 Mar (XINHUA)—China's silk exports will continue to increase this year, with value expected to reach \$US1 billion, according to the China Silk Corporation.

China, the world's No 1 silk producer and exporter, collected 287,500 tons of cocoons in 1984, an all-time high, a corporation official said. This will well meet the needs of the more than 600 silk producers across the country.

The major part of China's exports are raw silk, silk fabrics and clothing. Raw silk exports account for 90 percent of the world's total while silk and satin make up 40 percent. But they still fall short of demand, the corporation official said.

According to Wang Mingjun, president of the China Silk Corporation, China's silk exports have been growing steadily since 1978, with the annual increase rising from 6.1 percent 7 years ago to 8.9 percent last year, more than 80 new varieties and 2,000 new colors and patterns were added to the traditional list last year, which boosted the annual export value to \$US900 million.

Chinese silk sold briskly in the United States, Wang said. And the selling was stable in the West European market and had great potential in Hong Kong.

Business at a six-day silk export fair, which closed here today, was brisk, with transactions exceeding \$US60 million, 20 percent more than expected.

Attending the fair were business representatives from more than 20 countries and regions, including Italy, Britain, France, the United States, Switzerland, Finland, Canada, Saudi Arabia, Japan, Hong Kong and Macao.

Wang said China will mainly export pure silk piece goods. It will also be showing a number of new designs and varieties, such as paj, spun silk, crepe satin jacquard and heavy fabrics.

China has since 1982 begun to export silk garments instead of embroidered garments. This turned out to be a stunning success. The number of silk garments exported has increased 200 percent over that of embroidered garments over the past 3 years. Silk garments sell especially well in the U.S. market, he noted.

Wang said China's silk garment trade has mainly been in less profitable, ordinary goods, instead of high-quality items, as there were problems in the treatment after printing and dyeing and delivery of goods.

China will thus need to import more foreign capital and advanced technology to improve its silk industry, Wang added.

The Yantai silk printing and dyeing factory, a cooperative enterprise with an annual designed capacity of 2 million meters of silk, was funded by China and an Italian firm. It went into operation last December.

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FOREIGN TRADE AND INVESTMENT

IMPORTED EQUIPMENT IMPROVES JINZHOU FACTORIES

OW080300 Beijing XINHUA in English 0245 GMT 8 Mar 85

[Text] Shenyang, 8 Mar (XINHUA)--Imported equipment has boosted profits at 50 plants in Jinzhou, an industrial city in the northeast China province of Liaoning, officials from the local economic and trade commission said here today.

The city began importing facilities for the plants in 1983. The new equipment helped them increase their output value by 250 million yuan and yielded profits of 68 million yuan.

Located near Bohai Bay, Jinzhou has 2,053 plants producing petroleum, chemicals, machinery, electronics, textiles and light industrial goods. It is ranked as China's 22d-largest industrial center.

The imported technology has helped some local enterprises become profitable after years of losses, officials said.

Among them, the Jinzhou fire-fighting instrument factory was losing 600,000 yuan a year until two years ago, when it began importing technology from Japan and the United States to upgrade its products. It now earns an annual profit of 900,000 yuan.

Equipment from Federal Germany helped the city's synthetic fabric factory promote sales of its products, a part of which were once so substandard that they never went beyond the factory warehouse. The improvements helped the factory win first prize at a national synthetic appraisal meeting last year.

Jinzhou spent \$US5.68 million to replace aging equipment in its textile industry, which includes factories making everything from chemical fibers to finished garments.

The city intends to import new equipment for 40 more factories this year, a plan expected to cost \$US90 million. The imports will go to light industrial, textile, electronics, machine-building, building materials and chemical plants.

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FOREIGN TRADE AND INVESTMENT

REGULATIONS ON IMPORT-EXPORT DUTIES

HK090502 Beijing CHINA DAILY in English 9 Mar 85 p 2

[[PRC "Regulations Covering Import and Export Duties"]]

[Text] Chapter I. General Provision

Article 1. With a view to implementing the policy of opening to the outside world, bringing the tariff economic lever into full play and promoting the development of economic external relation, foreign trade and national economy, the present regulations are hereby formulated.

Article 2. All goods permitted to be imported into or exported out of the People's Republic of China are subject to import or export duty to be collected by the Customs according to "The Customs Import and Export Tariff of the People's Republic of China" (hereinafter referred to as "Customs Import and Export Tariff"), unless otherwise provided for.

"Customs Import and Export Tariff" is an integral part of the present regulations.

Article 3. The Tariff Commission shall be responsible for the amendment of the "Customs Import and Export Tariff" and the establishment of temporary tariff rates and submit them to the State Council for approval and promulgation.

The Tariff Commission is composed of the representatives of the Customs General Administration, the Ministry of Foreign Economic Relations and Trade, the Ministry of Finance, the National Planning Commission, the National Economic Commission and other relevant departments.

Article 4. The consignee (or shipper) or his agent shall be held responsible for the payment import (or export) duty.

Article 5. Rules governing the levy of import duty on articles of passengers' baggage and personal postal parcel shall be formulated separately.

## Chapter II. The Application of Tariff Rates

Article 6. The tariff rates for imports fall into two categories: General tariff rates and minimum tariff rates. The general tariff rates apply to the imports originating in the countries with which the People's Republic of China has not concluded trade treaties or agreements with reciprocal favorable tariff clauses therein; the minimum tariff rates apply to imports originating in the countries with which the People's Republic of China has concluded trade treaties or agreements with reciprocal favourable tariff clauses therein.

Article 7. No export duty shall be levied on the export items against which the export duty rates are not specified in the "Customs Import and Export Tariff."

Article 8. Imports or exports shall be levied customs duty at the tariff rates in force on the date of application by the consignee (or shipper) or his agent.

Imports which have been granted permission by the Customs to be applied for before their arrival, shall be charged import duties at the tariff rates in force on the date of entry of the means of conveyance in connection therewith.

## Chapter III. Assessment of the Duty Paying Value

Article 9. The duty-paying value for imports shall be calculated on the basis of CIF value of the goods, which means the normal wholesale price prevailing at the place of purchase plus all charges incurred before discharge at the place of importation in China, such as packing charges, freight, insurance premiums, commissions, etc., all of which are to be scrutinized and determined by the Customs.

Article 10. When the normal wholesale price of the imports prevailing at the place of purchase cannot be ascertained by the Customs, the duty-paying value shall be assessed on the basis of the normal domestic wholesale price of the similar goods at the place of importation prevailing at the time of application minus the import duty and product tax (or value added tax) paid at importation and normal freight, storage free and other business expenses incurred after importation.

When the normal domestic wholesale price of the similar goods cannot be ascertained, or the business transaction is of a special nature, the duty-paying value shall be assessed by the Customs.

Article 11. The duty-paying value for the machinery and appliance, means of conveyance and other goods, which have been sent abroad for repairs and re-imported, shall be assessed on the basis of the normal charges for repairs, materials or parts used, all of which shall be scrutinized and determined by the Customs, provided that such machinery and appliance, etc., were declared to the Customs at the time of exportation and reimported within the prescribed time limit.



Article 12. The duty-paying value for the goods sent abroad for processing shall be assessed on the basis of the difference between the CIF value of the processed goods and the CIF value of the original exports at the time of reimportation, provided that the goods sent for processing were declared to the Customs at the time of exportation and re-imported within the prescribed time limit.

Article 13. The duty-paying value for the goods imported on lease (whether contractual or financial) shall be assessed by the Customs on the basis of the normal rent of the goods concerned.

Article 14. The duty-paying value for exports shall be calculated on the basis of FOB value of the goods sold abroad less export duty, which shall be scrutinized and determined by the Customs.

Article 15. The consignee (or shipper) or his agent shall, at the time of handing in import (or export) application, produce simultaneously a bona fide invoice enumerated with such items as price, freight, insurance premiums and other expenses incurred for the goods (with manufacturer's invoices attached, if any), packing lists and other relevant papers.

The above-mentioned invoices and papers shall be certified true and correct by the consignee (or shipper) or his agent.

Article 16. In scrutinizing the duty-paying value of imports and exports, the Customs has the authority to accept or refuse the invoices, contracts, and other papers produced by the consignee (or shipper) or his agent, and if necessary, to examine the relevant documents, contracts, accounts and bills of both the buyers and sellers or make further investigations. The Customs may also check the accounts, bills of the goods concerned even after the release of the goods on payment of customs duty.

Article 17. Where the consignee (or shipper) or his agent fails to produce the relevant papers laid down in Article 15 at the time of handing in the application, the imports (or exports) shall be levied customs duty on the basis of duty-paying value assessed by the Customs. After the duty has been collected, the duty amount shall not be adjusted even though the relevant papers have been subsequently produced to the Customs.

Article 18. Where the CIF value and FOB value or rents [word indistinct] imports or exports are in terms of foreign currency, the amount shall be converted into RMB [[word indistinct]] the average rate between the buying and selling rates, quoted by the administrative organ in charge of exchange control in the "Schedule of Exchange Rate of RMB Against Foreign Currencies" available to the Customs on the date of issue of duty memorandum. In case the official exchange rate is not available, the Customs may use the exchange rate set by the above-mentioned administrative organs.

#### Chapter IV. Payment, Refund or Recovery of Customs Duty

Article 19. The consignee (or shipper) or his agent shall pay customs duty at the designated bank within 7 days (excluding Sundays and official holidays, the same below) from the date following the issue of the duty memorandum by the Customs, beyond which the Customs may, in addition to urge the consignee (or shipper) or his agent to pay the duty in time, charge an overdue fine at 0.1 percent of the total duty amount a day before the 8th day to the date of payment of duty.

Article 20. The Customs shall levy customs duty and overdue fine in RMB unless otherwise provided for.

Article 21. The Customs shall issue receipts in the forms set forth by the Customs General Administration for levying customs duty and overdue fire.

Article 22. Under any of the following circumstances, the consignee (or shipper) or his agent may, within a year from the date of payment of customs duty apply for a refund by handing in to the Customs a written statement with details of the case and relevant duty memorandum attached, failing which is application for refund shall not be entertained:

- a) Duty overpaid on imports or exports as a result of wrong assessment by the Customs;
- b) Full amount of duty having been paid on cargo passed without Customs examination and subsequently found to have been short-landed [as published] and verified correct by the Customs;
- c) Duty paid and released exports having not been shipped, owing to special reasons, and duly reported to the Customs as shutout cargo and verified correct by the Customs.

Article 23. Upon discovery of any duty being short-paid on imports or exports, the Customs may, within one year from the date of duty payment, recover the amount of duty short-paid from the consignee (or shipper) or his agent; if the duty was short-paid by fraudulent means, the amount short-paid may be recovered within 3 years.

#### Chapter V. Duty Reduction or Exemption and the Procedure Therefore

Article 24. The following goods may be exempted from customs duty upon verification by the Customs:

- a) The duty amount to be paid for a consignment of goods comes below RMB 10 yuan;
- b) Advertising matters and trade samples of no commercial value;
- c) Goods sent from abroad free of charge by international organizations or governments;

d) Native exports returned from abroad for any justifiable reasons, if applied for re-importation by the original shipper or his agent with supporting documentary evidence covering original export and verified true by the Customs. But the export duty already paid shall not be refunded;

e) Fuels, stores, beverages and provisions loaded on the means of conveyance entering or leaving the country for use en route.

Article 25. Under any of the following circumstances, the Customs may grant duty reduction or exemption on imports as the case may be:

a) Goods suffering damage or loss enroute or at the time of discharge;

b) Goods suffering damage or loss by force [word indistinct] after discharge but prior to Customs clearance;

c) Goods found leaky, damaged or rotten at the time of Customs examination, such damage, etc., being through no fault in custody on the party of the warehouse-keeper or other persons concerned.

Article 26. Trade samples, exhibits, engineering equipment and vehicles for construction, instruments and tools for installations, cinematographic and television apparatus, containers, theatrical costumes and paraphernalia, which are permitted by the Customs to be temporarily imported (or temporarily exported) and guaranteed to be re-exported (or re-imported) within 6 months, shall be exempted from the payment of import (or export) duty.

The time limit prescribed above may be extended at the discretion of the Customs.

Article 27. Raw materials, subsidiary materials, parts, accessories, components, and packing materials, supplied by foreign enterprise for inward processing or assembling or brought from abroad to make goods for foreign market, shall be exempted from import duty on the basis of the quantity of the material, parts etc., actually used in the processing or assembling and reexported.

Article 28. Rules governing duty collection or exemption for free replacement goods shall be formulated by the Customs General Administration separately.

Article 29. Duty reduction or exemption shall be accorded, in accordance with relevant laws and regulation, to goods imported into or exported from the special economic zones, to goods imported or exported by joint ventures, contractual joint ventures or enterprises using exclusive foreign investment and to goods entitled to enjoy preferential treatment by relevant rules.

Article 30. In case the consignee (or shipper) or his agent, due to special reasons, has to apply for duty reduction or exemption, he shall prior to the importation or exportation of the goods concerned, hand in to the local Customs a written application with reasons clearly stated and documentary evidence attached. After verification, the local Customs shall transmit the case to the Customs General Administration for consideration. Applications with false reason or without adequate documentary evidence shall not be entertained.

## Chapter VI. Procedures for Appeal

Article 31. Should the consignee (or shipper) or his agent be dissatisfied with the Customs decision, he shall pay the duty first and lodge with the Customs an appeal in writing within 14 days (excluding Sundays and official holidays) from the date following the issue of the duty memorandum. Any appeal not lodged within the prescribed time limit shall not be entertained.

Article 32. On receipt of the above-mentioned appeal, the Customs concerned shall, within 7 days, reconsider the case in question and may modify the original decision. If, however, the original decision is sustained, the Customs concerned shall transmit the appeal together with their comments to the Customs General Administration for consideration.

Should the consignee (or shipper) or his agent be still dissatisfied with the modified decision, he may lodge a second appeal within 7 days from the date of receipt of the notification of the modified decision. The Customs will transmit the second appeal within 7 days from the date of receipt of the appeal together with their comments to the Customs General Administration for consideration.

Article 33. On receipt of the appeal or the second appeal, the Customs General Administration shall, except in special circumstance, scrutinize the case, reach a decision and issue a written notification of the decision within 14 days which shall be communicated to the appellant through the Customs concerned. If the notification cannot be delivered, a public notice shall be posted at the Customs concerned.

## Chapter VII. Penalty

Article 34. Any act violating the present regulations shall be dealt with in accordance with the Customs Law and other relevant regulations.

## Chapter VIII. Supplementary Provisions

Article 35. All individuals have the right to expose or report any activities of duty-evasion. The Customs shall issue rewards to the persons concerned and undertake to keep secret after the case has been verified true and dealt with accordingly.

Article 36. The Customs General Administration is authorized to interpret the present regulations.

Article 37. The present regulations shall come into force on 10 March 1985.

CSO: 4020/144

FOREIGN TRADE AND INVESTMENT

SHANGHAI TO HOLD INTERNATIONAL AUTO EXHIBITION

HK100536 Hong Kong AFP in English 0514 GMT 10 Mar 85

[Report by Peter Lim]

[Excerpts] Hong Kong, 8 Mar (AFP)--China is gearing up for a major motor vehicle exhibition this spring to attract foreign makers to its potentially vast market and help set the country's automotive industry on the road to modernization.

"If we can have the know-how, we have vast markets for foreign car makers to offer in China," said Ye Ping, vice-president of Shanghai Automobile and Tractor Industries Corporation.

China, with over a billion people, "has an acute shortage of cars as the country's economy is heading for a healthy growth," Mr Ye said.

He added that many kinds of different motor vehicles were needed to meet the country's transport demands, particularly in the countryside where economic reforms have encouraged peasants to get rich.

Mr Ye was leading a delegation here from the working committee of the automotive exhibition to be held in the eastern port city of Shanghai from 3 to 9 July.

The delegation arrived Wednesday for a week-long visit to meet people in the automotive industry, traders and financiers.

Mr Ye said the exhibition would be "a great opportunity for foreign motor vehicles makers to introduce themselves to the big Chinese market and for the Chinese automotive industry to learn up-to-date know-how and recent international trends."

The exhibition--Automotive China 85--sponsored by the China Council for the Promotion of International Trade Shanghai Sub-Council and a local exhibition service, will have more than 150 Chinese and foreign motor vehicle makers from 19 countries and regions participating.

These are expected to include such leading car makers as Daimler-Benz AG and Volkswagen Ltd of West Germany, General Motors and Ford of the United States, Fiat of Italy, Renault of France, Nissan and Mazda of Japan, and Steyr of Austria.

The show will display cars, trucks, station wagons, minibuses, body components, chassis parts, electric and electronic equipment and testing and mechanical goods.

Qiu Jiufan department manager of Shanghai International Trade Information and Exhibition Corporation, said Chinese-made vehicles as well as cars made in joint ventures with foreign firms would also be shown.

"China's car industry is entering into its third period in the next 30 years--a golden age era," Mr Ye said.

"We will scrap about 500,000 of these gas-guzzling motor vehicles in the next few years to save energy and raise fuel efficiency," he said.

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FOREIGN TRADE AND INVESTMENT

FOREIGN TRADE FORUM OPENS IN SHANGHAI

OW011726 Beijing XINHUA in English 1627 GMT 1 Mar 85

[Text] Shanghai, 1 Mar (XINHUA)--Shanghai's 1985 foreign trade forum opened today. This has been an annual event since 1983 in this leading industrial and commercial city of China's.

More than 300 businessmen from 30 countries and regions entered into negotiations after they attended today's brief opening ceremony.

More foreign businessmen are due to attend the 10-day forum sponsored by the Shanghai Foreign Trade Corporation, according to an organizing official.

As a part of China's ongoing foreign trade reform, the Chinese participants include all industrial departments in Shanghai. The combination of trade with industrial sectors will promote expansion of foreign trade, the official said.

In the assembly hall 500 kinds of commodities are on display, including machines and textile goods.

Shanghai is also a major foreign trade port. It handled exports worth \$US3.6 billion last year, one-sixth of China's total.

The current reform will help Shanghai make a breakthrough in foreign trade, according to the corporation. Shanghai is now encouraging industrial departments to produce more goods catering to the international market.

The Shanghai office of the Ministry of Foreign Economic Relations and Trade is empowered to approve the setting up of offices by foreign firms there. It also has the power to issue licenses for export commodities.

Nearly 100 foreign firms have set up offices in the city.

The State Council has approved the establishment of the Shanghai Economic Zone, expanding into Jiangsu, Zhejiang, Anhui and Jiangxi Provinces.

Foreign trade departments of these provinces have sent representatives to attend the forum.



FOREIGN TRADE AND INVESTMENT

BRIEFS

PRODUCTION LINE FROM JAPAN--Guangzhou, 6 Mar (XINHUA)--A duplicator production line imported from Japan went into operation in Zhanjinag, Guangdong Province, Monday. The line, costing 5.7 million yuan, will produce 10,000 duplicators a year. Equipment, technology, parts and accessories were supplied by Japan's Canon Company. [Text] [Beijing XINHUA in English 1030 GMT 6 Mar 85 OW]

CSO: 4020/143

## SPECIAL ECONOMIC ZONES

### SHEKOU DISTRICT REFORMS, ROLE OF SEZs DISCUSSED

Beijing JINGJI YU GUANLI YANJIU [RESEARCH IN ECONOMICS AND MANAGEMENT]  
in Chinese No 5, 30 Sep 84 pp 38-40

[Article by Wang Juanyan [3769 7165 1750]: "Let SEZs Spearhead National Economic Construction and Modernization"]

#### I

[Text] According to Comrade Hu Yaobang, special economic zones (SEZs) should "handle new matters with new methods, special matters, with special methods. While our stand remains unchanged, we should adopt a completely new approach." As the primary aim of a SEZ is to attract foreign capital, it must be ready to offer preferential treatment to investors. It follows that what makes a SEZ special is its open, preferential policies. The "Regulations of the People's Republic of China on Special Economic Zones in Guangdong Province" and other relevant policies and regulations provide for various preferential measures for investors in SEZs. One of the most important concerns land-use fee. In Hong Kong, industrial land use cost 400 Hong Kong dollars per m<sup>2</sup> per year in 1981, before the real estate market crashed. In contrast, the land use fee in SEZs is only 10 to 30 RMB per m<sup>2</sup>, or 100 Hong Kong dollars, much lower than that in Hong Kong. As far as income tax is concerned, foreign ventures in China (excluding SEZs) are required to pay 30 percent income tax, while similar enterprises in SEZs pay only 15 percent. The income tax rates applicable to Hong Kong registered limited and unlimited companies are 16.5 percent and 17.5 percent respectively. Labor costs in SEZs amount to about 200 yuan per worker, of which 70 percent are paid directly to the worker as wages, 5 percent is retained by the enterprise as staff welfare funds, and the remaining 25 percent goes towards social labor insurance. Wages are higher here than in the interior, but still amount to just half of what workers in Hong Kong make.

It is certainly a sign of goodwill on the part of foreign capitalists to invest in China. But the essence of capital is to go where the highest profit is. If our tax rates, land-use fee, labor costs and other conditions are not considered attractive enough, foreign investors will adopt a wait-and-see attitude and capital will not come our way. Only when our tax rates, land-use fee and labor costs are such that capitalists can make a good return on their investments, will capital gravitate towards us for our use.

Even when funds are imported and a joint venture set up, it remains uncertain whether the enterprise will be managed properly. The answer depends on the kind of economic management system adopted. In the past, enterprises throughout China followed an economic management system which was borrowed rock, stock and barrel from the Soviet Union. Over 30 years of practice shows that this system was overcentralized, deprived enterprises of responsibility, autonomy and profits with the result that they could not function as basic economic cells, and gave rise to many problems. SEZs have adopted a management system different from the rest of the nation and carried out a series of reforms in this area, again demonstrating that they are indeed "handling new matters with new methods."

The Shekou district in Shenzhen, for instance, has been boldly experimenting in management reform, with visible results. Its reform mainly covers five aspects.

**Capital construction.** In the past, the organization and management of capital construction was characterized by divided leadership and an overly long chain of command, which made for complicated procedures and low efficiency. In SEZs today, a single leader is put in charge of "a capital construction working group." He assumes overall responsibility for the project, including its completion. Under this system, funds, planning, land acquisition, design, construction and on-site supervision are all unified. Eliminated were such old phenomena as fragmented leadership, everybody doing things in his own way, and bureaucratic squabbling. The result is an immense gain in efficiency. Previously, architectural engineering works were distributed through administrative means. The workers were usually less than dedicated, work was slow, quality was low and projects were expensive. Nowadays in the SEZs, "the design of a project is selected through competition and construction is open to bidding." This method has successfully mobilized the enthusiasm of all parties. Most projects today take 20 percent less time than in the past, and large projects cost about 15 percent less. So construction is now faster, cheaper and of better quality. The bidding system is in effect a form of competition which encourages all construction crews to improve their efficiency.

**Economic leadership system.** In the past, the state and enterprises were merged. Enterprises were not considered economic units, but appendages of governmental administrative departments. They relied on the state for investments, their production targets were determined by the state and their human, financial, material resources, production and marketing were all in the hands of the state, so they were not able to fulfill their economic functions effectively. From the beginning, the Shekou district in Shenzhen adopted a fairly sound management system which separates the state from enterprises. As far as production and construction are concerned, the highest decision-making body is the management committee which is not a government organ but a powerful economic body. In accordance with the needs of the enterprise concerned and relevant SEZ provisions, the committee can make policies regarding the importation of capital and technology, without having its decisions reviewed at every level. By putting the management

of an enterprise in the hands of an economic organ, SEZs have successfully removed the state from the enterprises and given the latter an opportunity to play their economic role.

**Personnel reform.** In the past, cadres enjoyed life tenure. Technical personnel were governed by a centralized distribution system while workers were contracted for collectively. In SEZs, these practices have been replaced by a system under which each enterprise is to recruit its own employees through examination and hire them on a labor contract basis. Professional and technical personnel are selected through open recruitment. The leading cadres of enterprises are chosen via an "electoral contracting system." Prior to his appointment, a leading cadre must be assessed by the criteria of making the cadre rank more revolutionary, younger in average age, better educated and professionally more competent, and then goes through a democratic election by the masses. Upon the approval of the organizational department, he will be offered a job on a contractual basis. When his term is up, the same selection-election process will be set in motion. This system abolished, for the first time, the old rule of seniority and the life-long cadre system. Wholly owned foreign enterprises and joint ventures are usually run by a board of directors and a general manager. The board assumes overall responsibility for the enterprise's operating direction, production, finance, marketing and personnel. Shekou district stipulates that a cadre must submit himself to an annual election during his term. Should he fail to obtain the votes of at least half of the workers, he must be replaced by another cadre selected through the same process. The practice has proved very useful in mobilizing the enthusiasm of cadres and workers, raising efficiency and improving management.

**Staff Distribution.** State-run enterprises throughout the interior used to have unified wage, promotion and bonus systems, resulting in equalitarianism and a serious "eating from the big rice pot" situation. Enterprises in the SEZs, on the contrary, are free to decide their wage system, level of wages and bonus system, in light of their own characteristics and their production, as long as they stay within the regulations of the zone. As a result, most enterprises have adopted a three-tier wage system which includes the basic wage and two flexible elements, the work wage and floating wage, each making up 35 percent, 35 percent and 30 percent, respectively, of a worker's wage. A worker's income is not fixed and there is no ceiling on it. Since how much he makes depends directly on the balance sheet of his enterprise, his technical level, labor contribution and performance, he has every incentive to be an energetic, enthusiastic and creative worker.

**Housing management.** For a long time, rents for staff and worker housing throughout China had been set at very low levels, so low that the rents collected could not even cover repair and maintenance expenses, a situation which has militated against continued housing construction and improving people's housing standard. In a bold reform, SEZs have been raising rents reasonably in a way that combines the principles of socialist commodity economics with a concern for the workers' basic welfare. Incentives have also been offered to workers to buy their own houses, thereby speeding up

the turnover of housing funds. In this way, the zones have been able to expand the housing stock as well as improve people's housing standard.

As the economy of a SEZ is an "externally-oriented" one mainly dependent on the importation of foreign capital, we have no choice but to go in for bold experimentation if the zone is to flourish. To a certain extent, the Shekou district has freed itself from the many outdated managerial and organizational practices still existent in the interior, which are ill adapted to production. Its experience has profound implications for structural reform in the country.

## II

The development of SEZs has created a good deal of material wealth. More important, it has enabled us to accumulate a fund of managerial experience, import and assimilate certain advanced technology, train a large batch of experts and promote economic development in the interior.

As I pointed out earlier, Shenzhou has been a pacesetter in economic management reform, offering the rest of the nation a valuable lesson. For instance, the central government has decided that from 1984 onwards, the bidding system would be applied to all capital construction projects. Furthermore, the State Council recently decided to give due powers to enterprises in 10 areas, including production planning, product marketing, prices, material procurement, use of funds, disposal of property, organization, personnel management, wages and bonus, and cooperative operation. Concerning the labor wage system, Comrade Zhao Ziyang lately has made it clear that enterprises in the interior, depending on their individual circumstances, can reward their workers in accordance with a point system, pay them by the piece, or institute such diverse systems as the floating wage system, the work wage system or position allowances. Enterprises with the necessary financial resources are free to undertake wage reforms at their own expense, provided they comply with relevant state provisions. Some of these changes can trace their origin to reforms in various parts of the country, others are derived specifically from experiences in SEZs.

The importation of foreign capital and advanced technology by SEZs also has obvious significance. The Shekou district, for example, went out of its way to attract knowledge- and capital-intensive projects from the very outset, instead of confining itself to labor-intensive ones. A study on 13 Shekou enterprises shows that among the 67 pieces of advanced equipment imported, many are of the standards of the 1970's and 80's. The quality of numerous products has reached international levels and are sold in far corners of the globe. At a time when the world's new high tech revolution is raging ahead, the development of SEZs as "technology windows" takes on special significance. They give us a timely understanding of the explosive development in science and technology, and, through the importation of advanced equipment and technology, enable us to digest the bountiful scientific fruits of modern human creativeness, helping us transform our traditional industries and stimulating our own industrial innovativeness.

Moreover, SEZs have acquired a pool of experience in the training of all kinds of experts. Most enterprises in Shenzhen do not depend on the state for funds but on joint investments with foreign firms or loans. As enterprises become more autonomous, they also shoulder more responsibilities and are now solely accountable for their own profits and losses. Hence their need for imaginative, insightful leaders. To meet this need, Shenzhen has turned out a crop of young, "entrepreneurial" leaders with liberated thinking and the courage to experiment, who share a sense of mission and urgency. They have a flair for spotting changes in the international economy, understand the market, and are comfortable with the idea of the market as an economic regulator. In addition, SEZs have also been a training ground for technical personnel. In the past, many college graduates and graduate students found themselves working in factories where they were so hemmed in that they were unable to give full play to their talents. A large number of them have volunteered to be pioneers in SEZs. Their participation in capital- and technology-intensive projects has given them a chance not only to use their specialities to the hilt, but also to renew and enrich their knowledge. SEZs have also been effective in fashioning a new generation of young workers. Since a majority of the products of the enterprises in SEZs are exported, they must be of a high quality in order to compete in the international market. From the very day their 17 or 18-year-old workers report for work, enterprises make stringent demands of them so that they will become disciplined, quality-conscious and efficient workers.

The most important point about SEZs in their strategic implications for speeding up China's modernization. The development of China's productive forces has always been uneven. As we push ahead with modernization, we cannot expect all localities to proceed at a uniform pace. Hence it has become a matter of objective necessity to make full use of SEZs as windows of "technology", "management" and "knowledge," invigorate the economy and make the zones prosperous earlier than the rest of the nation. The development of Shenzhen and Zhuhai has already led to the vitalization of the Zhujiang River Delta, which, in turn, can stimulate the technological progress and economic development of the more backward and hilly parts of Guangdong, thus speeding up socialist construction throughout the province. In an attempt to straighten out the relations between the coastal areas and the interior, the Central Committee recently announced the opening of 14 coastal cities from Dalian to Beihai. For an extended period in the past when we were the object of blockades and embargoes by certain hostile capitalist nations, we had no choice but to focus on the interior. But things have dramatically changed since then and people are now gradually realizing the importance of constructing coastal cities. With their firmer economic base, higher technical, cultural and educational standards and better access to information, the coastal areas have a greater capacity to attract foreign capital and import and assimilate foreign technology. Therefore, we should let coastal cities and ports actively import foreign capital and technology so that their productive forces can be developed first. The interior, in turn, can learn what coastal areas have learned from abroad. Through this trickle-down mechanism, we can gradually narrow

the scientific and technological gap between China and developed nations and lay the groundwork for a spurt of economic growth throughout China.

Right now, China is in the process of changing its closed, semi-autarkic economy into an open, commodity one. The creation and development of SEZs have far-reaching implications for facilitating this change, achieving our strategic objectives by the end of the century and building socialism with Chinese characteristics.

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CSO: 4006/344



## SPECIAL ECONOMIC ZONES

### EXPERIENCE OF SHENZHEN SEZ OVER PAST 3 YEARS SUMMED UP

Beijing JINGJI YU GUANLI YANJIU [RESEARCH IN ECONOMICS AND MANAGEMENT]  
in Chinese No 5, 30 Sep 84 pp 34-37

[Article by Tang Zhenggang [3282 2973 0474]: "Shenzhen SEZ Successfully  
Combines Development With Reform"]

[Text] Shenzhen is China's first integrated special economic zone devoted to the importation of technology- and capital-intensive enterprises. With its fast growth, large-scale construction and substantial investments, it has scored considerable achievements in the past 3 years since its birth. Inspectign the Shenzhen SEZ earlier this year, such leading central cadres as Deng Xiaoping and Hu Yaobang reiterated that Shenzhen's rapid growth and remarkable achievements testify to the correctness of the policy establishing special economic zones and the steafastnesss of our nation's open door policy, and demonstrate that modernization in China can be both rapid and effective.

#### I. Shenzhen's Spectacular Achievements in 3 Years of Construction

I became acquainted with Shenzhen's remarkable achievements during my trip to the zone and by reading relevant materials. They can be summarized as follows:

1. It has actively and successfully sought joint ventures, cooperative enterprises, wholly owned foreign enterprises and enterprises financed by capital from the interior.

Over the past 3 years, the SEZ has signed 2,512 agreements on joint ventures, cooperative enterprises and wholly owned foreign enterprises with a total value of 13 billion Hong Kong dollars, more than half of which came from Hong Kong. Of this amount, 2.97 billion Hong Kong dollars had actually been used by the end of 1983 to finance the purchase of 15,000 pieces (sets) of equipment. At the same time, the zone has also concluded over 450 agreements with more than 20 provinces, municipalities and autonomous regions and 14 enterprises under various central ministries and bureaus to set up cooperative enterprises. These agreements have resulted in the establishment of more than 200 industrial and business undertakings so far. Of the total 700 million yuan committed in the contracts, 200 million yuan have actually been invested.

2. Shenzhen is noted for its large-scale capital construction, rapid progress and good economic results.

In its 3-year existence, the Shenzhen SEZ has committed 1.96 billion yuan to capital construction. Work has been completed on over 800 buildings, each with six stories or more, of which 10 buildings are at least 18 stories high. Eight more such buildings are under construction. When completed, these buildings will provide a total floor area of 3.4 million m<sup>2</sup>. Also on the drawing board are 43 major roads, their width ranging from 20 to 30 m. About 50 km of these roads have already been open to traffic. In the pipeline too are 30 km of asphalt roads in the suburbs and 15 bridges. Right now construction is in full swing to complete the Shenzhen control line. Two other projects will begin soon to build China's first nuclear electric power plant and an international airport.

3. As a result of importing foreign capital and linking up its economy with that of the interior, it has been able to make rapid, simultaneous progress in industrial and agricultural production, external and domestic trade, tourism and local revenue and finance.

First, agricultural and industrial output value has been increasing by leaps and bounds. Dominated by electronics, construction materials, apparels, food and plastics, local industries increased their output value to 362 million yuan in 1982, up 47.8 percent over 1981, and a six-fold jump over the pre-SEZ era. Industrial productivity reached 17,700 yuan, which represents a 19.2 percent rise over 1981 and more than doubles that before the zone was set up. It was much higher than the national average of 12,000 yuan and the Guangzhou figure of 15,600 yuan, and was exceeded only by Shanghai (28,300 yuan), Wuxi (19,000 yuan) and Tianjin (18,500 yuan). Agricultural and sideline production in the outlying areas, with a population of just over 34,000 people, rose to 74 million yuan in 1982, a 4.6-fold increase over 1979 before the zone was created. Each labor force collective was allocated 1,812 yuan. About one-seventh of all agricultural households now make 10,000 yuan a year.

Second, domestic and international trade, both imports and exports, has been booming. In 1982, it bought 125 million yuan worth of goods from the interior and sold 460 million yuan worth of products in return (excluding country fair trade), which exceeded corresponding figures for 1981 by 10.4 percent and 37 percent respectively. In international trade, imports rose to 25.5 million yuan while exports hit 15 million dollars, representing gains of 12.6 percent and 40.6 percent respectively over 1981. In the first nine months of 1983, Shenzhen succeeded in turning its trade deficit into a 7 million yuan surplus, earning 16.4 million dollars in foreign exchange, or 26.2 percent more than in the corresponding period in 1982. Because of the production boom in the zone, brisk trade and multiplying sources of income, the municipality collected 163 million yuan in 1982, up 25.3 percent over 1981, and 6.5 times what it collected in pre-SEZ times.

Third, tourism has been thriving. In the past when we isolated ourselves from the rest of the world, Shenzhen had only seven small hotels and one guest house for foreign visitors. About 20,000 visitors passed through Shenzhen each year. After the SEZ was established, this municipality has rapidly become the largest tourist center in Guangdong Province after Guangzhou and a popular resort among compatriots from Hong Kong and Macao. Six tourist spots are already open for business, including Xilihu holiday village, Shuiku scenic area, Shiyantu hot spring and Xiaomeisha seaside holiday camp. With their 130 luxury hotels, guest houses, villas and hostels, they were visited by 250,000 people in 1982 and grossed 56 million dollars (including shopping and other expenses). As occupancy rates topped 80 percent most of the time, it is expected that the number of tourists would exceed 400,000 in 1983, bringing in almost 100 million dollars in foreign exchange.

Fourth, people's livelihood has obviously improved. Since it was set up, the SEZ has given jobs to over 30,000 people and the average monthly wage among the workers is more than 130 yuan, double that of 1979. Workers at well-run enterprises often make 200 to 300 yuan a month. From 1979 through 1981, 230,000 m<sup>2</sup> of worker housing were built and an additional 20,000 m<sup>2</sup> of such housing was completed in 1982. The per capita living space has increased from 2.7 m<sup>2</sup> to 6.24 m<sup>2</sup>. Given the large quantity of private housing built in the same period, it is possible that Shenzhen has the highest housing standard and highest per capita living space among the nation's cities and towns. Because of an improvement in the supply of non staple food items in the past 2 years, the boom in the restaurant business and strengthened market management, the city's escalating cost of living has been checked, with the consumer price index dropping by 2.6 percent, and the negotiated prices of non staple foods have become stabilized. Since Shenzhen abounds with export commodities, there is a considerable number of foreign exchange couple shops and special cabinets in the city which has now earned a national reputation for its rich variety of daily use products. The foreign exchange coupon prices of 15 high-grade, popular daily consumer goods including color televisions, cassette radio recorders, refrigerators, electric stoves, and famous brand bicycles, are 10 percent lower, on average, than those in Guangzhou.

## II. The Main Experience of the Development and Construction of the Shenzhen SEZ

The development and construction of the Shenzhen SEZ has followed its strategy of "targetting development at a section of the zone so that it can produce results first." From what I saw during my trip to Shenzhen and what I read about the zone, I believe its success can be attributed to three principal reasons.

### 1. Clear strategic goals and practical overall planning

Based on the principles and demands laid down by the Central Committee and the province, the SEZ drew up the "Program for the Social and Economic

Development of the Shenzhen SEZ" after much in-depth studies and extensive consultation. The program divides the zone into three major sections, central, eastern and western, and designates the central section as the focus of construction before 1985. With its center at Luohu, this section includes the small Luohu district which is earmarked for commercial and financial enterprises; the three industrial districts of Shekou, Bagualing and Shangbu; 14 small residential districts; 10 tourist districts and five parks. Tourist amenities and vacation villages are located in the ten tourist districts, each with its own characteristics. Even while construction is still underway, some of these establishments have gradually been opened for business. The aim is to make available 10,000 rooms in stages to accommodate 1.5 million visitors a year. Industrial investments, which rely heavily on foreign capital, are concentrated in Shekou in the beginning. The emphasis is on knowledge-intensive enterprises and export processing. At the same time, efforts are made to strengthen the "link of the zone with the inland economy." The idea is to make the zone a strong competitor in international markets and, via its link with the inland economy, a disseminator of new products, new technology and advanced management techniques throughout the interior. The program calls for the SEZ to establish 10 industrial districts with 1,500 factories at a cost of 3.7 billion yuan within 20 years. Shenzhen is striving to be a highly modernized, multi-functional city by the turn of the century, with a population of 800,000 and a total industrial output value approaching 10 billion yuan.

2. With capital importation as its priority, the SEZ has worked hard to create a favorable investment climate.

A well-developed infrastructure and efficient social logistic services are indispensable to advanced enterprises and productive operations. The emphasis that the zone put on capital construction from the very beginning was an important reason why foreign investors have been attracted to the zone and investing heavily in it. Indeed, Shekou paid so much attention to capital construction that it has been able to provide factory space, living quarters, office, water and electricity, telecommunications facilities and other services in a way that satisfies the demand of foreign firms for speediness, thereby living up to the business requirement that "time is money." Additionally, what makes Shekou the logistical base for oil exploration in the South China Sea are such infrastructural projects as the Chiwan deep-water harbor, a special oil pier, a microwave communications station, a helipad and an off-shore rescue station. It is thus clear that the zone has not repeated the mistake of "production first, living second." By following the principle of "results first" in planning its industrial distribution and selecting factory sites, the zone has been able to achieve a high degree of speediness in development, in putting enterprises into operation and in benefiting from such enterprises. This is a real success story in strategic urban development and should be emulated by the interior.

3. Actively courting Hong Kong and overseas Chinese investors, the SEZ has adopted flexible and preferential policies.

Shenzhen is Hong Kong's neighbor and backyard. Herein lies an important factor for the rapid development and integrated progress that Shenzhen has made. The establishment of the SEZ has done much to boost the enthusiasm of the compatriots of Hong Kong to invest in Shenzhen. To attract and encourage Hong Kong investments, the zone has adopted a range of preferential measures. For instance, it has opened up a special passageway at Luohu and Wenjindu to let private small vehicles pass through, simplified entry and exit formalities and lengthened the hours of opening at the customs. After the special SEZ control line is established, the regular frontier station and customs house will be moved to the "second line," further liberalizing entry and exit procedures between Shenzhen and the New Territories as stipulated in a bilateral agreement. The SEZ's tax rate and other investment expenses have been set at lower rates than those in Hong Kong, Macao, Singapore and Korea. For instance, its income tax rate is 15 percent (16.5-17.5 percent in Hong Kong); industrial land use fee is 10-30 yuan per m<sup>2</sup> per year (in Hong Kong, it was 400 Hong Kong dollars before the real estate market crashed); per capita industrial wage is about 800 Hong Kong dollars per month (compared to 2,000-3,000 Hong Kong dollars in Hong Kong); water costs 0.18 yuan per m<sup>3</sup> (it costs 1.21 Hong Kong dollars in Hong Kong); and electricity, which costs 0.085 yuan per kwh in Shenzhen, costs 0.7 Hong Kong dollars in Hong Kong. In light of the fact that there are altogether 13 million Hong Kong compatriots and overseas Chinese who came from Guangdong, the province recently revised existing regulations and adopted additional provisions to offer them even more attractive terms in such areas as profits sharing, tax rate, land rents and other charges. The SEZ has also been more accommodating to overseas Chinese investors regarding the domestic marketing of certain products, loans, the employment of investors' relatives in the country, purchase of property and settlement. Hong Kong and foreign investments in the SEZ have been increasingly steadily since 1980, as shown by the following figures.

In 1980, agreement was reached for a total investment of 2.37 billion Hong Kong dollars, of which 370 million dollars were invested. Corresponding figures for 1981, 1982 and 1983 were 6.8 billion and 590 million Hong Kong dollars; 1.419 billion and 880 million Hong Kong dollars; and 2.63 billion and 1.13 billion Hong Kong dollars, respectively. The world economic recession and the rise of trade protectionism brought home to Hong Kong compatriots the time, geographic and human advantages of investing in the SEZ and the fact that the booming socialist economy in China was the only bright spot in an otherwise gloomy world economic scene.

### III. The Characteristics of the Shenzhen Management System and its Method of Operation

The SEZ has taken pains to implement the instruction of the Central Committee: "Special matters should be handled in a special way and new matters, in a new way. While our position remains unchanged, we should adopt a new style of operation." It has freed itself from old rules and conventions, introduced modern scientific management techniques, merged

economic development with structural reform and modern management, and gone all out to achieve the separation of the state from enterprises and do a good job in economic development through economic mechanisms and economic organization. Municipal administration, taxation and finance are the responsibilities of the municipal and district governments. The importation of foreign capital and economic development, on the other hand, belong to the "Shenzhen Special Economic Zone Development Corporation" which is independently audited and solely responsible for its own profits and losses, and its more than 10 small subordinate companies. The corporation operates in Hong Kong as the locally registered "Shenzhen Trading Company." The internationally known "Shekou method," a result of Shekou's rich experience in the management and operation of enterprises, essentially boils down to three major points.

First, separation of the state from enterprises, capable staff and streamlined administration -- Construction headquarters for the Shekou district consists of one director and three offices; general office, the office of the chief engineer and the office of the chief accountant. Tasks pertaining to development, construction and importation are discharged by 13 appropriate, independent specialized companies. Within each company, the highest decision-making authority resides in a board of directors which hires a general manager as chief executive to carry out policies and oversees management and operations. This is the general manager responsibility system. In this way, the district has succeeded in preventing the recurrence of such old phenomena as functional overlapping, overstaffing, inter-departmental squabbles and failure to get things done.

Second, open recruitment and the merit system -- These systems provide the avenues through which numerous cadres, enterprise personnel and many members of the latest crop of college graduates have found their way to Shekou. Also widely adopted are the contracting system, the floating wage system and the bonus system. The newly opened Japanese-owned Sanyo Company, for instance, is the first company in Chinese managed by a Japanese director. A Chinese engineer was selected through examination to be head of the workshop. The staff and workers of the factory were recruited through examination in Guangdong and went through brief training before they assumed duty. Since their operations are governed by stringent technical regulations, work norms and quality standards, they are in effect "contract workers." Gone are the many old maladies that arose from the "iron rice bowl" and "eating from the big rice pot." It is clear that with a rational wage system and under rigorous scientific management, the performance of our workers can satisfy Japanese demands for high quality and high efficiency.

Third, trustworthiness, a willingness to honor contracts and a commitment to protecting all parties' legitimate rights and interests -- This is another reason for Shekou's rapid success in capital importation and construction, and helps explain why foreign businessmen appreciate the Shekou method. Shekou welcomes more and more investors to come to make reasonable profits. Such investments are regulated and protected by contract. Before a contract is signed, both sides should mull over it extremely carefully, examining it from every angle. Once they put their signatures on



it, they must honor it. If one side violates the contract, the other side can take legal action to secure the rights it is entitled to under the contract. The SEZ has allowed lawyers to practice and the court nowadays hears and arbitrates economic cases openly.

The Shekou method, which adapts well to the profit-oriented operational style of Hong Kong and foreign business as well as meets the construction needs of the SEZ, has been instrumental in promoting modern management techniques among foreign-owned enterprises and cooperative enterprises, bearing in mind the SEZ's actual conditions, and boosting readjustment and reform in all kinds of organizations and businesses. Most enterprises in the SEZ display the following three managerial and operational characteristics.

First, modern equipment, streamlined organization and high efficiency. In these enterprises, the percentage of cadres not engaged in production is usually less than that in enterprises in the interior. In many joint ventures and wholly owned foreign enterprises, managerial personnel account for less than 5 percent of all staff. After withdrawing from Hong Kong in 1981, the Pepsi-Cola Company of the United States signed a contract with the SEZ in August that same year for the construction of a 5.6 million dollar bottling (canning) plant. The plant, which went into operation in July 1982, employs 120 workers and is run by only one director and one supervisor. Its consultant and resident technicians are assigned here from the United States. Of its daily output of 12,000 crates, 80 percent is marketed abroad. It sold 1.8 million crates to Hong Kong in 1982, capturing 15 percent of Hong Kong's soft drink market. In 1983, its Hong Kong sales amounted to 2.3 million crates, a rise of 27 percent over 1982. Its labor productivity and operating efficiency are by far the highest among all large soft drink plants in China. The Niaoshigu Quarry, a 50-worker cooperative enterprise with Australian interests, is fitted with automated equipment from West Germany and produces 500,000 m<sup>3</sup> of crushed stones and 200,000 m<sup>3</sup> of ground stones each year. Its labor productivity exceeds that of any large semi-automated quarry in China by several tens of times.

Second, insistence on "quality first, customers first." Modern capitalist enterprises try to survive in a ferociously competitive market by offering high quality products and impeccable services. Since most Shenzhen enterprises process or manufacture goods for export and are geared towards the international market, they must test their performance by international standards so that they can hold their ground in the world market. This means that advanced quality-testing facilities and procedures must be adopted to achieve all round rigorous quality control which takes in the entire staff and the whole production process. Baohua Electronics Factory, for instance, has exported 500,000 radio clocks to the United States since 1982, without having any one of them being rejected. It is this record which has earned the trust of Hong Kong exporters who decided to exempt its products from examination.



Third, widespread adoption of the responsibility system and strict enforcement of labor management. A disciplined and dedicated staff is essential to high productivity and operational efficiency. Most people who run enterprises in the SEZ realize this basic rule of management and have put into practice the contract system, operational contracting system and various kinds of responsibility (technical) systems, while steering clear of such practices as "eating from the big rice pot" and the "iron rice bowl." Many factories recruit and promote workers through examination. They are required to punch time cards when they report for work in the morning and take off at the end of the day. There are also work norms and operational procedures. Good performance is rewarded while penalties are meted out to those who break the rules. If a worker stays away for more than 6 days, he is regarded as having resigned. Compared to their counterparts in the interior, workers in Shenzhen are paid more in return for their higher productivity. They put up 11 six-story buildings with a total floor space of 25,000 m<sup>2</sup> in 90 days; completed an 18-story building in 300 days; drove 24,000 piles, all up to standard; and built two major concrete roads, each 20 to 33 meters wide, with a combined length of 6 km, within 80 days.

The remarkable achievements and managerial experience the SEZ has acquired over the past three years fully bear out the correctness of the Central Committee's strategic policy, "adopt an open policy abroad and a flexible policy at home." The establishment of special economic zones represents an effective approach towards expediting China's four modernizations. The Shenzhen experience boils down to the lesson that development and reform can go hand-in-hand and that speediness and results are not mutually exclusive. This is an experience all departments, trades and professions would do well to follow. If we learn this lesson, we will certainly be able to quicken the pace of reforming China's national economy and bring closer the day when the four modernizations are realized.

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TRANSPORTATION

RAILWAY, BRIDGE BUILDING COMPETENCE DISCUSSED

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[Article by Liu Yi, [0491 2022] of the Engineering Bureau, Ministry of Railways: "Positively Adopt New Techniques to Increase Our Technical Competence in Building Railways and Bridges"]

[Text] Seventeen years remain from now to the end of this century. And during these 17 years, the highest and most important priority in the mission of both the party and the country is to quadruple the total gross value of our industrial and agricultural output. As a result, the average income in our country will reach the level of that in a country of median development. In addition, however, the great technological level in our country may begin to catch up with and even get close to that in the more advanced countries in the world. To reach this heroic and grand goal, we have to rely first on policies and then on S&T. Premier Zhao Ziyang once pointed out that there is no future if we stay in conservative industries without engaging in technically advancing enterprises.

In order to facilitate a great increase in industrial and agricultural output and to raise the living standards in the country, we also have to rely on the increased transportation facilities of railways. At present, there is already high demand on the use of railways in the country. We should realize fully that from now through the end of the century when the people's economy will be greatly developed, this demand on the railways will only increase, not lessen. At that time, the railways will be carrying at least double the present total volume. This figure may also increase 1.6-fold on the busier coastal routes. Thus, in order to successfully deal with this difficult transportation task, we have to increase our technical competence in building railway lines and bridges by using newer and more advanced technologies.

Our country is now paying great attention to new science and technology and we are also in a world where there is tremendous scientific development--a time that has been referred to as "The Fourth Industrial Revolution," and "The Third Wave." The new technological accomplishments will furnish us with both higher scientific prerequisites as well as a greater material basis. Therefore from now on, our longer range plans, we should keep pace with developments in the world, and also note references from the experiences

of Soviet Russia and other advanced countries. As a result, we will be able to determine and plan our policies from a pragmatic approach in accordance with the country's situation.

Regarding the general direction of the scientific and technical development of the railways in our country, the department of railways have already formulated the "Railways' Main Technical Policies". Our mission is thus to put these policies into practice. As far as the department of public works is concerned, in order to accomplish this, we should do the tasks noted below.

#### 1. To Adopt the Development of Reinforced Tracks and Rails, in Order to Strengthen the Tracks

Because our railways are used widely to transport goods, the total volume of weight all the rails must bear is tremendous. According to the regulations in the "Railways' Engineering and Technical Standards," tracks that bear an annual total weight of and slightly more than 300 million tons per km should be made of 60 kg grade steel. The new regulations also decide on the use of 70 kg grade steel for rails that bear 600 million or slightly more tons per km. Yet at the moment, these tracks are still built of 50 kg grade steel, and obviously unsuitable material. This situation has, therefore, given rise to a conspicuous problem in our railway system, with the safety of the railways being increasingly placed at risk by the breakage of rails. In order to guarantee the safety of our railway system and to prepare for the future in transportation, we must quickly develop ways of reinforcing the rails in order to increase the overall loadbearing strength of the rails. The practical implementation of this job has the following aspects:

##### A. To Lay Reinforced Rails Speedily and To Use Steel of Higher Quality.

Before 1983, 60 kg grade steel was used in laying a small quantity of rails as an experiment. In 1984, our country decided to use this grade of steel and its use was thus put into production in the laying of rails.

The reinforced rails that had been designed to be laid with 70 kg steel will have cross-sections similar to those of the rails in Soviet Russia that are laid with the 75 kg steel. The area under the rails would be increased to the width of 150 mm, the same measurement as for the rails of our 60 kg grade steel and also wide enough for the existing ties and linkages. The Beijing Department of Railways has planned to manufacture the bars of steel for the rails so that the rails may be laid experimentally this year. We should try to create all the favorable conditions and, on the one hand, lay as many of the rails with the 60 kg grade steel and, on the other hand, conduct active research into the making of 75 kg grade steel. Thus, in about 10 years' time we may be able to reverse the present situation of having substandard and outdated rails.

Our steel rails also have the serious problem of showing surface fatigue. The type 20 and 21 fatigue are seen especially frequently on the bends of the rails. In order to prevent these occurrences of surface fatigue in steel, a deoxidizing compound was used in the smelting process during the

manufacturing of 50 kg grade steel as an experiment to reduce the quantity of the nonmetallic impurities. While such experiments have been held in the railway departments of both Jinan and Shanghai, some technical problems still remain to be looked into and improved on. Furthermore, in order to extend the life of usage of the reinforced rails, those that are made of the 60 kg and 75 kg grade steel should be completely strengthened by annealing. Some of the 50 kg grade steel was treated with an overall quenching method and then made into experimental rails. However, shortly after these tracks had been laid, the surface layers started to disintegrate and come apart, thus showing the material's unsuitability. Thus, although large quantities of the steel track would be strengthened with the heating process, further research must be made in conjunction with the metallurgy department in order to reach more advanced technology for its preparation and making.

In addition, after years of experimental usage, we know that high-silicon steel can stand a great amount of friction and, therefore, we should widely recommend its use for bends on tracks.

#### B. To Use Various Kind of Foundations and Component Parts Under New Tracks

Many concrete ties have already been laid. Most of these are of the type 69 and because of the inadequate strength of the steel reinforcement, cracks have been occurring frequently. In addition, in the laying of the ties, earth must be scooped out of the middle area in the underlying railway bed, and this has both affected the stability of the rails as well as caused problems in maintenance work. As a result, it has been decided to develop the type 81 ties, to increase both the quantity and strength of the steel reinforcement, and discontinue the practice of scooping the earth from the middle part of the roadbed. It has been decided to put the 81 type of railway sleepers into operation in 1984. Its production will be greatly increased to accomplish the goal of providing all the necessary supply in 3 years, while the type 69 railway ties will continue to be made by a few production lines for subsidiary tracks.

In order to install tracks laid with 75 kg grade steel, new rail ties will need to be designed. While we know that the length of the new ties is to be 2.6 m, its width and the weight of its reinforced steel still have to be determined. During 1984, a few ties have been made in an experiment in the Beijing Department of Railways. They were then laid with rails of 75 kg grade steel. The exact dimensions of the ties will, however, need to be determined after the experiment.

Ties for the 50 and 60 kg ribbon rail as well as small radius turns, and lines with long steep grades to be built within the next 10 years that must carry a load of 30 million tons per km will use an I type spring, 75 kg rails will use an open spring connection. Research, production and trial use of the new ties will begin in 1984. Its experimental use is aimed to be complete during the first part of the Seventh 5-Year Plan, while its mass production and practical usage will be accomplished during the latter part of that plan.

Wide rail ties are more commonly known as concrete slab ties and they have been approved by the department. They have been laid in the regions, in big passenger stations and also in tunnels. The general condition of these wide ties in our railway system is good except for some sections, where because of the surface of the foundation and because of standing water, there would be frost heave which in turn would lead to the cracking of the rail ties. However, the cracks that have appeared in the wide ties (above the asphalt and motar surface) are more serious in nature. They should be looked into and completely worked over from the point of elasticity, with the necessary improvements to be made in the foundation, the linkage and the ties. Wide rail ties are more stable and require less maintenance. From now on, they should be widely recommended for use along busy tracks carrying heavy coal traffic, in tunnels or at big passenger stops.

Some of the concrete ties that are used (at the points) have already been laid with 50 kg grade steel on line No 12. They also have good balance and require low maintenance. Their popularity is also due to the fact that only a small quantity of timber is required in their construction. The weakness of this particular type of tie, however, is that it is lacking in certain categories. New designs are still needed for the No 9 of 50 kg, No 12 of the 60 kg, and No 12 of the 75 kg. Moreover, all the beds for the switches should be standardized. We have planned to complete during the planning stage of the Seventh 5-Year Plan to put into practical use the different kinds of roadbeds that are used at switches.

The work of improving roadbeds must be done primarily in tunnels. Maintenance work is more difficult in tunnels and according to this logic, tunnels should appeal more to workers of the department of public works. However, both the design and the execution of rails in tunnels were poorly done, and as a result, excessive water that has remained standing in the roadbeds has caused other problems. The very safety of the railways has been threatened on occasions. Therefore, from now on, we should raise standards in both design and execution, find a solution for getting rid of excess water, build tunnels only in areas with suitable soil foundations.

The different types of surfaces under the tracks that are discussed above are the basic types that are in use in our new railway system. We have experience in using the concrete tie slab and we will decide on its usage at a later stage of development.

The important point of the foundation surface of concrete with steel reinforcement is its durability. Those of higher quality can be used for several decades while inferior ones last for only a few years, thus presenting a great range in differences. The quality of any product made of concrete with steel reinforcement depends heavily on material and workmanship. Thus, from now on, under the favorable conditions in our country where there has been great development in both the material and manufacturing industries, we will be able to make technical improvements in the factories that make concrete ties by using new materials and techniques, therefore raising their quality to a new threshold.

C. Expand the Area That Will Be Laid With Lines Made of Seamless Steel Tube, and Develop the Emphasis on the Work of Repairing Old Tracks

Logically, concrete ties should be used with long steel tracks. Now when we compare the figures of the existing quantity of seamless railway lines with those of lines that are equipped with concrete ties, we can see they are not equal. (Because we started early, but progressed at a slow pace, we should change the situation as quickly as possible.) Therefore, in order to expand the area that is to be laid with rails, we have for several years been doing increased research and testing, differential range of temperatures and in small radius turns. But most important of all, we should raise our techniques in welding while laying tracks. Therefore, on the one hand, we should maintain the production of trains that can transport the new type of extended tracks that will also increase production in the factories that make welded tracks; on the other hand, we should make comprehensive plans to build more factories that make these new tracks. Further regarding these tracks, manufacturing cost is low, and it is easy to get the project going. For instance, the factories that make the small welded tracks of the 50-80 km type, can use gas welding machines. We hope to build a few of these small factories in the planning stage of the Seventh 5-Year Plan. We should know that only if we undertake the policies that are listed above seriously, will we realize the goals that are set in the "Main Technical Policies of Railways." Thus according to the plan, in 1990, seamless tracks will account for 34 percent of the total volume of rails. From now on, apart from laying new tracks, we can also lay recycled tracks on seamless track routes.

Since we should know that the joints of seamless track routes are the weak parts, we should, therefore, strongly recommend the use of small gas welding equipment. In addition, we should actively improve both the quality and workmanship of thermite welding and the training of suitable welding workers. For instance, the new thermite welding technique of "wide-seaming, insulation, and normalizing", that was recently tested in the railway department in Beijing had a great influence in the improvement of welding quality in general. Moreover, the Scientific Research Institute of Railways in the railway department of Shenyang has also been carrying out research and experiments with the same goal of improving welding technique. Our plan is to get all the relevant forces together, to tackle the key problems in order to raise the techniques and quality of thermite welding to a new threshold in the next 2 years.

The capabilities of the kind of electric resistance welding in our country are very high, therefore we should try to plan to repair old tracks with suitable welding methods. The crux of these repairs is to plane the surface of the tracks. It is planned to experiment in producing the necessary equipment for this technique, in these next 2 years, and then widely recommend its use after testing.

#### D. To Carry Out Research on the New Type of Railway Roadbed, and to Raise Material Quality

The traditional type of railway roadbed is made of pebbles. However, all the railway departments in the country have raised the standards in quality of ballast, with the wider use of concrete ties and the mechanization of maintenance work. Therefore, pebbles used for ballast are now somewhat more even in size and are also chosen for hardness capable of bearing much friction. Nevertheless, in the history of railways in our country, we have paid very little attention to any scientific research on the development of roadbed ballast. Therefore the standards in the use of ballast are still 30 years old and, in addition, the supervision of rockmining has also been lax. As a result, the quality of the ballast used in our country is generally very low and this factor has had a great influence on both the quality of railways and the work in the department of public works. We have, therefore, planned to organize the proper forces to improve both the standards and production of ballast this year. We will also propose that the scientific research institute of the railway department carry out research on railway roadbed problems and materials.

Since the quantity of coal transported on our railway system is relatively large, we should pay attention to the main problem of how to prevent dirt from accumulating on railway roadbeds. The Soviet Russians either use asbestos as their ballast, or they may spread a thin layer on the surface and, as an alternative, add asphalt to the ballast. As a comparison, the asbestos railway roadbed is cheaper to make, and the cheaper material (with more water and without soil) should be used. Since asphalt roadbeds are more expensive, they should be used on bridges, in tunnels, the beginning of lines and bridges.

There are three new kinds of railway roadbeds that have been tested in our country: the type made by pouring asphalt; the type with asphalt surface and the type that is an entity in itself. The practical results of these three types await further evaluation after testing.

#### E. Use the New Type of Switches as Quickly as Possible and Discontinue the Use of Limited Speeds on Trunk Line Switches

Because of the inadequacy of the currently used, the current system of switches requires reduced speeds on trunk lines. However, the 50 kg AT pointed tracks with the new type of switches have already been approved by the unit and they have also been laid in an experiment by the Jinan department of railways which will decide on its use in 1984. The AT pointed tracks with the new type of switches, allows speeds up to 120 km/h on the trunk line. The speeds on the sidings can reach 55 km/h. We can tell that the new type switch will help tremendously in the speed of transportation and therefore should be adopted as soon as possible. From now on, therefore, 60 kg switches should also be installed when 60 kg steel tracks are being installed. Because there is no large supply of AT pointed tracks and the new type switch, in the meantime we can use the ordinary type switch. This is because the dimensions of both the old and the new switches are similar and the old type can be changed anytime. On the other hand, we



should try to solve as quickly as possible the problem of laying the new AT pointed tracks, to complete both its planning and execution, and to complete both the rail sections as well as the electrical equipment. Wheels that are made of manganese steel in general have a short life and also have uneven qualities. Bearing an average weight of 60 million tons, they will last for only 1 to 2 months. Therefore in order to solve this problem, we have to develop technical cooperation in order to improve the equipment and technology in the present system and to finally succeed in making technological improvement in the present system of points.

## 2. Greatly Remedy the Ills of Railway Roadbeds, and How To Best Maintain Their Healthy State

In a comparison of the technical standards in our railway construction with those internationally, our lowest level is in the way railway roadbeds are built. The quality of railway roadbeds even in some of our new lines is low. Moreover, maintenance work on railway roadbeds has recently been neglected and this situation has even led to the creation of new "ills" in the system.

These ills include surface collapses, landslides and sinking railway roadbeds. If the serious situation of railway roadbeds continues, then the safety of trains will also be threatened. It is already at the stage that calls for drastic remedies. Therefore, from now on we should deal with the problem from two aspects. First is to determine the planning of important engineering points in order to thoroughly repair landslides and surface collapses. Recently, we have had civil engineering techniques to remedy the ills of the railway roadbeds with more beneficial results and we should, therefore, recommend this adaptation widely. The second aspect of the work that we have to do concerns the maintenance of railway roadbeds in order to prevent future collapses. This work should be done in conjunction with the local regions in order to maintain water and soil conservation. As a conservation measure, trees should be planted on both sides of railway roadbeds. In addition, thick retaining walls made of rubble should no longer be allowed to be built along the shoulders of railway roadbeds, nor should cables and posts be buried or erected either along the shoulders or in the drainage ditches. Nevertheless, when cables have to be buried anywhere, there should also be reinforcement. Furthermore, we should note that the traditional way of weeding promotes considerable surface erosion damage to railway roadbeds. Thus, we should widely recommend the replacement of manual weeding with chemical weeding. This method has been tested by the railway departments in Jinan, Zhengzhou and Qiqihar with comparatively good results. In a cost calculation, chemical weeding costs 40 yuan per kilometer. It is planned to put this method into operation in the whole country during the planning stage of the Seventh 5-Year Plan.

The railway departments that have more trouble with their railway roadbeds should also institute railway roadbed inspection stations in order to take control of the situation, as well as to chemically analyze the soil and to correct the trouble in the whole situation.

### 3. To Adopt New Technology in Order To Properly Care For and Maintain Bridges and Tunnels

The important aspects of the work of caring for and maintaining bridges and tunnels are: to determine a reasonable quality in the state of bridges and tunnels, to understand hydrology, to regulate the planning of repair work, and to reinforce flooding prevention work, and lastly to do good regular maintenance work. In order to carry out all this work, we have recently used the following six forms of inspection equipment. These include a laser device that measures the boundaries of bridges, a laser television that inspects piers in the water, a device that measures the depth of murky water, an inspection device that gauges the thickness of the walls of tunnels as well as any damage that may have occurred, and devices that gauge the lasting capability of the steel cable above the moving tracks and one that gauges the current speed with radar. As a result, in our work of maintaining bridges, we should actively seek new technology, new reference material. In addition, we should widely adopt the 13 items of advanced technological experiences that were raised in 1983 in Changsha at the conference of experience exchange regarding major repairs on bridges.

If we increase our efforts to remedy the ills of bridges and in our planning, determine our source of capital expenditure, and match the brigade work strengths with machinery, then within 10 years, we may be able to raise our standards of mechanization by 80 percent.

The primary task in the proper maintenance of bridges and tunnels is to enforce the inspection of bridges and to gradually develop also the inspection of tunnels. Bridge inspection teams should seriously carry out the following tasks: to analyze the weaknesses in the state of bridges and tunnels, and to propose ways of correcting them and maintaining them; to determine the load-bearing weight of bridges and also to regulate their use; in the task of flood prevention, the apertures and rates of erosion should be determined; in the planning of new designs, the reinforcement of linkages and other structural parts on big bridges should be determined; the inspection of boundaries; and in the accumulation of technological material on bridges. All this must be done to advance both the scientific maintenance and the technology of bridge building.

### 4. To Actively Develop Mechanization of Railway Maintenance and To Build the Foundation For Large Models of Railway Maintenance Machines

In 1981 at the conference held in Qiqi Har on the mechanization of railway maintenance, the basic principle of the development of the mechanization of railway maintenance was regulated. The basic idea was that in most of the major railway lines, the small hydraulic ramming machine and the electric mixing machine were used as the primary machinery in maintaining railway lines. Moreover, the organization formula of any mechanical maintenance was restricted by both work areas and work teams. Therefore, in order for both to maximize the efficiency of mechanization and to facilitate the execution of maintenance work, the best formula is to join the working of

large maintenance work teams with that at the checkpoint stations in the maintenance work areas. Furthermore, joining the two work areas in the execution of the enterprise of mechanized ramming is also a good method. In some of the busy sections where the situation in transportation is special, mechanization teams should set up, and groups of highly efficient large-scale machinery should also be used when the "skylight" method of repairs is to be used. For 3 years, we have used with appropriate results the principle of employing both large work teams to do medium and major repairs on whole sections of rails with the use of highly efficient large-scale machinery and of using small machinery in doing relatively minor repairs on individual small sections. This principle of working should, therefore, continue to be carried out more thoroughly. It is our goal that in 10 to 15 years' time, all the repairs on our railways will be completely mechanized. The levels achieved in major mechanization, medium repairs and basic maintenance will be 80, 70 and 35 percent respectively. In order to achieve this goal, we should accomplish the following few things: 1. Continue to advance both the quality of small models of machinery and their working efficiency. 2. Experiment on the busier sections with the large type of machinery. The Beijing department of railways has gone even one step further on its Jing-Qin line. It has planned to set up a direct mechanization team in its section on labor and electricity in order to assume complete control of all the teams that are concerned with mechanized servicing. This is a good way of dealing with all the basic servicing of public works. 3. Solve the problem of where to have large-scale machinery do the repairing. 4. Research and develop new type of machinery. The types of machinery that are still being researched and will soon be manufactured include: A small model that will act as a screen in cleaning around ties; a small hammering and ramming machine; four-tiered rail carriages that will transport extended railway tracks; medium type machinery that will act as screens in cleaning out around the rails; large type machinery that will lay tracks. The types of machinery that are still awaiting research and development include the large model of machinery that will act as a screen in cleaning out around ties; automatic-leveling machinery; machinery that will automatically make the ballast; automatic balancing machinery; chemical weeding devices; small stainless steel rail hooks; and small stainless steel boring machinery. 5. Properly carry out the necessary work. At the moment, we are dealing with producing the four types of large machinery that will act as screens in cleaning out around ties.

In addition, we have also planned to look into the problems of the grinding effect of trains on tracks, the key inspection equipment for the new type of trains, electric welding machinery and machinery that will plane the surface of tracks, and other necessary equipment and machinery.

##### 5. To Advance the Level of Scientific Control

To advance research work in the scientific control of railway maintenance is to employ computers and other advanced testing equipment, and thereby raising the standard of scientific control.

In the recent development of railways, railway maintenance has become a specialized academic field. Therefore any contemporary work in railway maintenance has a very important role in the system of modern railways. The work of railway maintenance in our country has its own characteristics and our system has also been praised internationally. However, we should also recognize that the standard of our railway maintenance, and particularly our standard of control, is rather low. Much of the work in this area is in the nature of fumbling. Although it is true that in our railway lines, the trains run fairly steadily, this, apart from being the result of studious and meticulous inspection of railway workers, is also due to the relatively slow speed of our trains. At the moment, the speed of our freight trains is 50 to 60 km per hour and the highest passenger train speed is only 100 km per hour, with the average speed being 80 to 90 km per hour. In the future when the standard of building trains will be raised, when their traveling speed will also be increased to a regulated speed, when the amount of transported weight will also be increased, and changes in tracks will also be made, if at this time we still do not adopt scientific technologies, then the quality of our railway lines will be difficult to maintain. Therefore, in our work of railway maintenance, we must do more than just adequately deal with the present situation, from now on we should greatly emphasize scientific research in railway maintenance.

In order to increase scientific control, the first tasks are to increase the standards in both the use of inspection and gauging equipment and computers. The use of computers is of great importance in the department of public works. Computers are already in use in working out the degree of bends, the automatic recording of the speed of traveling trains and the inspection of tracks. From now on, computers should also be used in the working of complex figures, in the analyses of complex references, and things that have to do with messages and automation. Recently, the railway departments in Shenyang, Beijing and Chengdu have all used microcomputers in analyses of damages to tracks. The use of computers in the inspection of tracks is also being looked into. Moreover, the manner of inspection of trains in all railway departments should also be modified. This is being tested in the trains of the Shenyang and Beijing railway departments and where microcomputers have been used for standard modifications. Research on the three types of JGT equipment that inspect damaged tracks have already been completed and they are already being manufactured, so that in 1 to 2 years, all the railway departments in the country will be provided with the necessary supplies. From now on, we still have to look into equipment that can gauge the damage done in the welding processes. The equipment that will test the damage to rail tracks is being researched at the national level and we have to wait for the result for its future development. In addition, there is also development in the warning signals that will tell the proximity of the trains. It is planned that in 5 years they will all have been serviced. Furthermore, the system of warning signals regarding flooding and natural disasters will also be gradually set up.

With the established use of equipment, there must also be the corresponding establishment of organizations, so that the use of the equipment will then be maximized. It has been proposed that in 10 to 15 years inspection stations will have been instituted in all work sections of all railway track and railway train departments. These stations will be equipped with different equipment and stocked with different technical personnel. They will be responsible for testing tracks, caring for damage on tracks and determining the standards of railway roadbeds, the equipment and system of warning against flooding and natural disasters.

The above discusses the fundamental ideas in advancing the standards of the technical equipment that concern bridges and tunnels. In order to realize these ideas, we must also properly carry out all the regular work. In this, the most important aspects are: to reform the system of organizations, to establish the system of comprehensive scientific control; to increase the effort to train personnel, and to more fully equip specialized cadres; to regulate the Seventh 5-Year Plan and that of the succeeding 10 years so that all work will be considered in scientific research production planning before it is practically realized. If we all unite and do our utmost in cooperation, then we will most certainly gain victory.

CSO: 4006/71

## TRANSPORTATION

### DEVELOPMENT OF CHINA'S CIVIL AVIATION DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 11, 27 Nov 84 pp 14-16

[Article by Shen Tu [3476 0956], Director of the Civil Aviation Administration of China: "Development of China's Civil Aviation"]

[Text] China's socialist civil aviation that grew in synchronous steps with New China has made great strides forward over 35 years since the founding of New China. Guided by the line, principles and policies especially since the 3d Plenary Session of the 11th CPC Central Committee, the civil aviation enterprise has become more prosperous with each passing day and is advancing with giant strides.

Today, China's civil aviation has developed to a considerable scale and owned a fleet of different types of aircraft. It has a number of airports that can handle the landing and takeoff of large jet aircraft under complicated weather conditions and is equipped with complete facilities for aircraft maintenance and repair, flight control, communications for navigational guidance and meteorological protection and an educational and training system for training in transport specialities and air and ground technical personnel. It has formed a domestic air transport network connecting with major and border cities throughout the country and opened international routes to Asia, Africa, Europe, North America and Oceania. It has also established specialized aviation systems offering numerous projects to serve industry, agriculture, national defense, science and technology and is playing a growing important role in national economic construction and making contacts with people of other countries.

China's civil aviation operated only 12 routes in 1950, carrying 10,000 passengers, and the total transport turnover volume was 1.57 million ton-km. By 1978, it developed to 162 routes, transporting 2.31 million passengers, and the transport turnover volume came to nearly 300 million ton-km. The shifting of the work focus toward economic construction following the 3d Plenary Session of the 11th CPC Central Committee and the implementation of the policy of opening to the outside world and enlivening the domestic economy have greatly accelerated the development of the civil aviation enterprise. By 1982, the total transport turnover volume amounted to 630 million ton-km more than doubling that before the 3d Plenary Session within 4 short years; the volume of increase exceeded the sum total in the past 28 years. By 1983,



203 domestic and international routes have been put into operation covering a distance of approximately 370,000 km and carrying 3.91 million passengers, the total transport turnover volume came to more than 650 million ton-km. Viewing from the scale and speed of development and comparing 1983 with 1950, the number of routes has increased by 191; the number of passengers transported was 390 times greater; and the total transport turnover volume has increased at an average annual rate of 20 percent. The average daily transport volume of China's civil aviation in 1983 was 240,000 ton-km more than the transport volume in the whole year in 1950 by comparison. China's civil aviation has begun to make more profit year after year since 1979 earning more and more foreign exchange and income for the state. With the growing of China's international prestige, China had restored its legitimate seat in the international civil aviation organization in 1974 and subsequently participated in the signing of six major international multilateral conventions and protocols for civil aviation one after the other, the position and role of China's civil aviation in the world's aviation field are getting more attention with each passing day. Since the beginning of the 1980's, the aircraft of China's civil aviation has been daily flying side by side with other foreign aircraft in the international routes, China's civil aviation has stepped into the world's aviation transport market. From a side-view, the strides made by China's civil aviation have demonstrated the matchless superiority of the socialist system.

China has formed a domestic air transport network that extends in all directions with Beijing as the center today. Domestically, we now have 80 air stations and more than 170 routes maintaining more than 600 regular flight schedules weekly. Nationally, with the exception of Taiwan province, the capitals of various provinces, cities and autonomous regions have either direct or connecting flights with the national capital Beijing, the destinations can be reached on the same day. The state has also attached great importance to the priority development of air transportation from the hinterland to remote areas and areas with poor transport facilities. Of the several routes opened the earliest in the 1950's, there were some extended to Xinjiang region in the western part and to Sichuan province in the southwestern part of our country. In 1956, our civil aviation pilots surmounted mounting difficulties in breaking through the "forbidden zone in the air" by flying over the so-called "ridge of the world," the Tibetan Plateau, and opened the route to Lhasa. Civil aviation passenger planes are now operating in many large, medium and small cities within the radius of more than 5,000 km in the national territory of our country that covers 9.6 square km, east to Jiamusi of Heilongjiang, south to Haikou of Guangdong, west to Kashi of Xinjiang and north to Hailar of Nei Mongol. To cope with the needs of developing tourism in our country, more than 20 tourist routes have been opened successively in recent years. Among the key tourist zones throughout the country, there are 40 tourist cities being served by the civil aviation, of which eight key tourist cities have daily flight schedule. For the convenience of compatriots from Hong Kong and Macao to visit friends and relatives in the interior or go sight-seeing, the civil aviation administration have quickly developed air transport between the interior and Hong Kong. Six cities including Beijing, Guangzhou, Shanghai, Hangzhou, Tianjin and Kunming have begun air traffic to Hong Kong; Xian, Fuzhou, Xizmen and Guilin have



operated regular and non-scheduled chartered flights to Hong Kong. The opening of these routes have provided good transport facilities in strengthening political contacts between the border regions and the hinterland, enhancing unity of nationalities, making the multi-national economy and culture of our country flourish and developing tourism.

While vigorously developing domestic air transport, the civil aviation administration has opened new international routes in a planned and systematic manner thereby developing the international air transport business. In the 1950's, air traffic was extended to the Soviet Union, Burma and Korea. In the 1960's oceanic flights were embarked upon to lay the groundwork for reaching out. By the 1970's several long-distance international routes were opened to reach Japan in the east and France in the west. In the 1980's, traffic was opened to the United States and Australia. It has signed aviation agreements with more than 40 countries and established business contacts with aviation corporations in more than 180 countries and regions. The volume of transport in the international routes now accounted for over 50 percent of the total civil air transport volume and thus beginning to compete in the international aviation market.

The technology and equipment of civil aviation in our country have been updated and renovated continually. By 1983, more than 370 airports have been newly built, improved and expanded throughout the country. Among them, more than 10 can handle the landing and takeoff of passenger planes above the Trident aircraft level. The air fleets of the civil aviation administration are undergoing constant renewal. In addition to aircraft produced in China, passenger planes such as the world's more advanced Boeing 737, Boeing 747SP, Boeing 747--200B and MD--80 have also been put into operation one after the other. To satisfy the needs of developing various types of personnel for the civil aviation enterprise in our country, more than 10 civil aviation academies and institutes have been set up to train air crew for various types of aircraft, navigation control personnel, engineering, maintenance and repair personnel and specialized transport personnel. Our country's civil aviation has also built its own specialized scientific and technological research organization and factories for major aircraft overhaul, repair and manufacturing of communications equipment and repair and manufacturing of surface equipment. For the convenience of passengers, beginning from March 1981, electronic computers have been put into use to handle reservations for the international flights of our civil aviation. The international airports in the country have opened tax free stores. The aviation food company, a joint venture with Hong Kong capital, has raised the level of the food served on board the civil aviation aircraft and also prepared food for more than 10 foreign airlines.

While energetically building up air transport, our civil aviation enterprise has also developed specialized aviation programs to serve agricultural production, national defense, science and technology. The flying contingent of the specialized aviation of our country's civil aviation enterprise has grown from a specialized aviation team in 1952 to an industrial aviation service corporation and 20 flying groups and independent squadrons at present. The number of specialized aircraft has grown from one C-47-type aircraft to

several hundred aircraft of more than 10 types at present, the number of various types of corresponding instruments and equipment has also increased. The scope of services has extended to various fields including industrial and agricultural production, national defense construction and scientific research. With regard to operation, it has grown from using aircraft to spray chemicals for the extermination of mosquitoes and flies as in Guangzhou in May 1951 to dispatching a hundred aircraft at the same time at present to engage in aerial photography, aerial remoting sensing, aerial mineral prospecting, aerial investigation, agricultural seeding, weeding and fertilizer application, prevention of insect pests, artificial precipitation, forestry seeding, fire prevention and forest protection, aerial graze seeding, scouting fish schools, rescue in defiance of disasters and scores of other operations. With the introduction of a number of new operational projects and the increase of the number of service flights for petroleum prospecting at sea and over land, specialized aviation has continuously opened up new paths and is developing side by side with air transport.

Our civil aviation has always attached importance to improving safety and services and strictly adhered to Premier Zhou Enlai's instructions of "emphasizing safety first, improving service and striving to prevent accidents" as the basic demand of civil aviation work. Through long years of practice, a set of regulations and rules ensuring flight safety have been gradually summed up and a number of flying units with over 20 years of sustained flight safety record and flight personnel with over 10,000 safety flying hours have emerged. It has also enjoyed a fairly good reputation in international flights. Through restructuring, the transport service is now advancing toward the direction of standardization, division and institutionalization.

In the field of operation and management, our civil aviation has improved step by step the supply system and the method of exclusive administrative control used in the past and restored economic accounting, implemented the system of taking responsibility for its own finance, joint management of routes by transregional administrative bureaus and the economic responsibility system and carried out enterprise restructuring and other reforms in keeping with the demand of operating like enterprises. With the steady development of production, profits in civil aviation have also increased year after year thus making a certain contribution to the state.

In spite of its fairly rapid development, the civil aviation in our country had a weak foundation and took off from a low starting point. Air transport in our country at present still accounts for a very small proportion in the communications and transport field as a whole, falling far behind the economically developed countries. Certain problems and weak links still exist in the fields of enterprise management, infrastructure construction and services. This requires our civil aviation to try hard to catch up. In keeping with the strategic target put forth by the 12th CPC Congress, our civil aviation has preliminarily drawn up a plan: The total transport turnover volume will reach 800 million ton-km by 1985, 1.6 billion ton-km by 1990 and 3.2 billion ton-km by 2000, which, by comparison, is eight times greater than the over 400 million ton-km in 1980. By the year 2000,

specialized aviation will log between 130,000 and 150,000 hours. To realize this target, our civil aviation will further implement the policy of readjustment, restructuring, consolidation and reform for economic construction, and on the basis of concentrating on internal restructuring and readjustment, it will develop and use the advanced experience of the international civil aviation, separate the government from enterprise functions, strengthen the government functions of the civil aviation administration, organize and establish aviation corporations, invigorate the operation and improve the quality of service. In the meantime, efforts should be made to do a good job in airport construction, enlarge and renew the air fleet, improve various ground safety facilities, speed up personnel training and stride forward toward the international advanced level.

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CSO: 4006/289

TAIWAN

# COMMUNICATIONS MINISTRY REVEALS 'MAJOR' PLANS

OW160553 Taipei CNA in English 0320 GMT 16 Mar 85

[Text] Taipei, 15 March (CNA)--The Ministry of Communications [MOC] said Friday that in fiscal 1986, which begins on 1 July, the MOC will further step up discussion of bilateral and multilateral air agreements with foreign countries, establishment of an air-cargo transshipment center and promotion of air-sea transport warehousing services. In its report to the Legislative Yuan, MOC said that all these administrative programs were mapped out in line with the guidelines set by the Executive Yuan, budget allocations by the government and the demand in the transportation and telecommunications sectors.

An official with the ministry explained that the primary purposes of the programs are designed to satisfy the goals of traffic safety, transport convenience, improved services and development potential in the operating agencies under the ministry.

Major items covered by the MOC report include:

Evaluation and revision of the long-range development plan for the Taiwan area, improvement of transportation facilities, streamlining of traffic order and promotion of traffic safety;

Construction of the Taipei city underground railway, implementation of the Taipei metropolitan mass rapid transit system and improvement of the operation of Taipei bus services;

Carrying out the Sun Yat-sen Freeway's belt road system in the metropolitan areas of northern Taiwan;

Laying double tracks over the railway sections in Kaohsiung-Pingtung and Fengyuan and Chengkung; widening the Yilan railway line and installation of automated traffic signals along the north-link railway;

Completion of the on-line computerized highway supervisory monitoring system;

Development of the marine transshipment and warehousing centers in Kaohsiung and Taichung and boosting the carrying capacity of the ROC-Flag merchant fleet;

Introducing new technologies to improve postal service and computerization of postal savings, remittance and life insurance operations;

Application of digital systems and bigger optics communication lines in telecommunications to cope with the progress of information system; and

Promoting automation in meteorological services in upgrading weather forecasting accuracy, such as predicting typhoons and heavy rains.

CSO: 4020/152

5 April 1985

TAIWAN

## MINISTERS' TASK FORCE TO PROBE CREDIT SCANDAL

OW140317 Taipei CNA in English 0240 GMT 14 Mar 85

[Text] Taipei, 13 March (CNA)--The Ministries of Finance and Justice formed an inter-ministry task force on Wednesday in an effort to find out whether government officials should be held either administratively or criminally responsible for the scandal.

Vice Finance Minister Pai Pei-ying and Vice Justice Minister Chu Shih-yen will co-chair the meetings of the joint task force which comprises members from both ministries, including MOF's Personnel Director Chen Kuo-chi and Senior Specialist Hsu Kung-chin; and MOJ's Prosecution Director Li Dwang-hua, Taipei District Chief Prosecutor Chen Han, and its Investigation Bureau's Anti-corruption and Economic Crime Center Director Lee Chen-yu.

Pai said his ministry has notified the Ministry of Justice that the special task force will begin operation immediately after the confirmation of the participating members designated by the two ministries.

He said members of the working team will go over all the related files and documents to see if there were irregularities in connection with the 10th Co-op scandal. Severe punishments are likely to be imposed on those who are found to have been derelict in their duties. Furthermore, in case any one of those proved to be criminally liable, he will be transferred to the Taipei District Prosecutor's Office for further investigation and will be subject to criminal charges.

However, Pai stressed that the scope of investigation of the task force will not cover the personnel of the Bank Examination Department of the Central Bank of China.

CSO: 4020/152

5 April 1985

## TAIWAN

## TAIWAN-JAPAN AUTO VENTURE CONSIDERED 'OVER'

OW160559 Taipei CNA in English 0250 GMT 16 Mar 85

[Text] Taipei, 15 March (CNA)--A ranking official with the Ministry of Economic Affairs confirmed Friday that the possibility of Japan's Toyota Motor Co participating in a joint venture with domestic industrialists on auto manufacturing here is over, but he disclosed that several other renowned foreign auto companies are willing to make investments and produce automobiles in the Republic of China.

The official who takes part in policy-making but refused to be identified noted that various factors make it quite impossible to push through the proposal to manufacture cars here in a joint venture between Toyota and domestic manufacturers. This determination was made although officials with the Industrial Development Bureau under the Economics Ministry went recently to Japan and exchanged views with Toyota officials on auto manufacturing.

The official also confirmed that several other world renowned auto producers are planning to negotiate with this nation on the possibility of setting up auto plants here. But he refused to identify the foreign auto makers. He pointed out that Toyota and mainland Chinese authorities have not come to an agreement on their possible joint auto venture. The Peiping regime might turn to General Motors Corp of the United States in its plan to develop the automotive industry on the mainland, he added.

CSO: 4020/152



TAIWAN

TAIWAN TO CANCEL IMPORT SURTAX BY YEAR'S END

OW172357 Taipei CNA in English 1450 GMT 17 Mar 85

[Text] Taipei, 17 March (CNA)--The Ministry of Finance has decided that it will cancel the 5 percent import surtax at the end of this year. By then, all tariffs on import products will be calculated according to CIF (cost, insurance and freight).

It is estimated that in fiscal 1986, the government's revenues will be reduced by NT dlr 10 billion (U.S. \$250 million) because of the cancellation of the import surtax, which was 10 percent in fiscal 1984, an official with the ministry said. This official pointed out that if imports do not increase by then, it will be difficult for the government to attain the tariff incomes of NT dlr 70.6 billion set for fiscal 1986.

The ministry also decided to continue to fulfill its promise to the United States regarding the reduction of tariffs on some items of U.S. products.

Lai Ying-Chao, director of the ministry's Customs Administration Department, said the reduction of tariffs might increase the nation's imports. He said his department will keep an eye on the changes in prices of imported products. But as to whether the reduction of tariffs will reduce the domestic commodity prices, Lai said this is not within the authority of his department. Lai said that the government's revenues from import tariffs in fiscal 1986 was set at NT dlr 70.6 billion, but after the 5 percent import surtax is cancelled, the government will need more imports to cover the losses.

CSO: 4020/152

TAIWAN

CHEMICAL INDUSTRY TRADE FIGURES FOR 1984

OW190343 Taipei CNA in English 0234 GMT 19 Mar 85

[Text] Taipei, 18 March (CNA)--Exports of rubber and plastics products led the nation's exports of chemical goods last year by breaking the NT dlr 100 billion (U.S. dlr 25 billion) mark. Export of the two items among chemicals also grew by 29.8 percent last year over those of 1983, according to the Council for Economic Planning and Development. The outputs of the nation's chemicals industries increased last year largely due to a sufficient supply of basic materials after the completion of the fourth naphtha-cracker plant and stable market prices in the year.

Exports of other chemical items in 1984 were: Chemical materials reached NT dlr 20 billion, climbing by 20 percent from those of the year before; and chemical goods, NT dlr 30 billion, or 16.5 percent. The overall growth in imports of chemicals in 1984 was far lower than that of the exports: chemical materials were up by only 7 percent; chemical goods, 21.8 percent; and rubber and plastics goods, 14.27 percent.

On the prospects for this year, the council predicts, lowering import tariffs will result in an expanded rate of chemical imports, but their exports are expected to grow slower than last year.

CSO: 4020/152

5 April 1985

## TAIWAN

## BRIEFS

AUSTRIAN TRADE GROUP--Taipei, 10 March (CNA)--A 35 member Austrian trade group, led by Dr Walter Ertl, deputy director general of the Department for Trade Policy and Foreign Trade of the Austrian Federal Economic Chamber, arrived in Taipei Sunday for a 4-day visit. While here, the Austrian delegation will call on government officials of the Ministry of Economic Affairs and Board of Foreign Trade, and visit economic establishments and trade institutions of the Republic of China. The purposes of the Austrian group here are to seek opportunities of technological transferring, market exploiting, and overseas cooperation. Members of the large Austrian delegation were composed of representatives of 29 Austrian enterprises, including bank, metallurgy, electricity, environment protection, and iron and non-ferrous metal, etc. A reception is scheduled to be held at Taipei Hilton Hotel Monday evening in order to exchange views with their Chinese counterparts. [Text] [Taipei CNA in English 0233 GMT 11 Mar 85 OW]

ECONOMIC POLICY REMAINS UNCHANGED--Newly appointed Economics Minister Lee Tai-hai said Wednesday that the nation's economic policies of trade liberalization, internationalization and institutionalization will remain unchanged after he assumes office. The minister-designate also pledged that he won't significantly reshuffle the ministry's personnel. He will try to persuade the incumbent vice ministers to remain at their posts. Lee lauded his predecessors--Chao Yao-Tung and Hsu Li-Teh--for their achievements in liberalizing and modernizing the nation's trade and industry. Lee also singled out his priority tasks: Upgrade the overall economy by modernizing traditional industries and developing high-tech industries; improve state-run enterprises; enhance labor productivity to sharpen the competitive edge of local exporting industries; redistribute textile quotas and renovate bulk commodity purchasing. [Text] [Taipei CNA in English 0952 GMT 13 Mar 85 OW]

ECUADOR TECHNICAL ACCORD--Taipei, 14 March (CNA)--A 2-year extension of a technical cooperation pact between the Republic of China and Ecuador was approved by the Executive Yuan Thursday. The current pact will expire in January 1987. The original agreement was signed in Quito, Ecuador's capital, in January 1981. Ecuadoran representatives cited the impressive work by the Republic of China's fishery mission to their country in their desire to extend the agreement. [Text] [Taipei CNA in English 0300 GMT 15 Mar 85 OW]

TAIWAN SEDAN IMPORT--The Republic of China [ROC] will import 1,200 sedans from Korea, V.C. Siew, director general of the Board of Foreign Trade, said Thursday. Siew said that the decision was made after discussions held since the ROC-ROK economic cooperation meeting in early March. The director also cited the traditional cordial relations between the two nations as a basis for the trade agreement. Two years ago, the Republic of China imported 2,400 sedans from South Korea. Siew stressed that the importing of Korean cars should not affect the development of his nation's auto industry. He says he expects Korea to import goods from the ROC in the future. [Text] [Taipei CNA in English 1006 GMT 14 Mar 85 OW]

FOREIGN NATIONS' COOPERATION--Taipei, 16 March (CNA)--The Ministry of Economic Affairs [MOEA] has worked out plans to boost economic and technical cooperation with more foreign countries, including Japan, West Germany and the United States. According to a spokesman for the MOEA, the plans include dispatching technical personnel overseas for professional training, inviting experts to Taiwan and hosting international symposia. Sixty-four local technicians will be sent to the United States in fiscal 1986 for special training, the official said. In return, many experts from the United States will come here to take part in 20 research projects and symposia. Meanwhile, 15 technicians will receive training in West Germany and about 200 in Japan, he said. In the same year, the MOEA will hold bilateral economic and technical cooperation conferences with South Korea, South Africa, Costa Rica, Uruguay and Saudi Arabia, the official said. [Text] [Taipei CNA in English 0252 GMT 18 May 85 OW]

CSO: 4020/152

HONG KONG MEDIA ON CHINA

SHENZHEN TO ALLOW FOREIGN BANK OPERATIONS

Hong Kong WEN WEI PO in Chinese 9 Nov 84 p 7

/Article: "Shenzhen Will Allow Foreign Banks to Open Branches"

/Text/ The demand for banking services will increase more and more following the economic development of the Shenzhen Special Economic Zone /SEZ/. In particular, some foreign enterprises and Sino-foreign joint ventures need the fund collection services and assistance of foreign banks.

At the present time foreign banks can only set up correspondent offices in the Shenzhen special zone, not branches. Correspondent offices are only liaisons so they naturally cannot satisfy foreign businessmen and various banking needs.

So far, nine foreign banks have correspondent offices in the Shenzhen special zone, including Huifeng, Chartered Bank, Banque Nationale de Paris, Banque Nationale de (Xingye), Banque de l'Indochine, (Wanguo Baotong) Bank, Sanwa Bank, (Laisi) Bank, and the Japan Hokkaido Takushoku Bank. Additionally, the (Xinhongji) Bank long ago applied to be a correspondent bank. Approval has been granted but there has not been a formal opening.

The commercial Bank of the Malaysia Archipelago set up a branch in Shenzhen as early as January 1982 and a second one in Shekou in 1983. A branch differs from a correspondent office in that it can engage in banking transactions like deposits, withdrawals, loans, securities, etc. It is said that since these two branches are loners right now in the SEZs, business is great. However, it is expected that this isolation will be shortly broken.

Many Chinese economists all along called for an opening of banking business and giving foreign banks permission to open branches. Those in charge of the Shenzhen special zone government repeatedly said in public that foreign banks would be able to set up branches there. A formal announcement has yet to be made. Many friends told this reporter that this is "only gossip," or in Cantonese, "picking up people's words."

However, it is this reporter's understanding that the responsible Shenzhen special zone government parties really do highly regard the matter and are enthusiastic about it. When drafting laws and regulations, the matter has to be carefully considered since banking business is often related to questions

about foreign exchange control. People on all sides had repeated discussions about the banking law draft in the previous stage and estimated that the problems are not great.

Once the banking law is formally promulgated, it is expected that the first group of banks licensed to open branches will be those that presently have correspondent offices in the SEZs; some of these offices will be able to be upgraded into branches. It is said that some of them have already submitted applications to the special zone governments.

Additionally, some banks that do not have correspondent offices in the special zones are considering turning in applications for them up or setting up branches. They say that some major Chinese banks with a long history in Hong Kong are preparing to apply.

It is estimated that the banking business in the Shenzhen special zone will flourish in the near future. The pros and cons and effects of allowing foreign banks to open branches will be dealt with next time.

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CSO: 4006/101

5 April 1985

## HONG KONG MEDIA ON CHINA

## XIAMEN BUILDING INTERNATIONAL EXHIBITION CITY

Hong Kong WEI WEN PO in Chinese 10 Nov 84 p 8

/Article: "Xiamen and Hong Kong's Fushan Hezu Fudao Corporation Build International City, Each Side Invests H.K. \$200 Million; Exhibition Hall to be Completed Early Next Year; Xiamen's First Large-scale International Exhibition to be Held End of June, Four Phased Construction to Take 5 Years"

/Text/ A 50,000 square meter international exhibition hall at an investment of HK\$400 million will be completed early next year. Xiamen's first large-scale international exhibition will be held from 25 to 29 June 1985. Chinese and foreigners from around the world will be invited to participate when the time comes.

According to Liu Jiahui /0491 1367 6540/, general manager of the International Trade and Trust Corp, Xiamen special economic zone /SEZ/, in a reception for reporters held yesterday, the Xiamen Fudao Co, Ltd and the Xiamen Fushan International Exhibition City are joint ventures invested in by the Xiamen Special Zone International Trade and Trust Co, the Xiamen Real Estate Co, the Xiamen Goods and Materials Corp and the Fushan Investment, Design and Engineering Co, Ltd of Hong Kong. The parties established contact in Xiamen during July of this year and signed an agreement and formal contract within the short space of a few months. A foundation laying cerem

This project is a relatively large and long-term investment project. The total investment is HK\$400 million; one-half is to be supplied by each side.

The exhibition city will be centered around an exhibit hall, including a bar, offices, recreation facilities, a shopping mall and various ancillary services all in one, just like a modern small exhibition city. The area of the exhibition city is 50,000 square meters and the entire site will occupy 100,000 square meters. The whole project is divided into four phases, to be completed in 5 years. Phase One of the city will be completed in May of next year and the first international exhibition held on 25 June.

Phase Two of the project is construction of a 32-story office building with an area of 37,000 square meters. It is expected that the project will be finished in late 1986 or early 1987. The office building will then be sold or rented to Chinese and foreigners. Phase Three involves expanding the exhibition hall and



increasing the number of vendor stalls from 450 to 1,800. The project is set for completion at the end of 1987. Phase Four will be construction of a hotel with more than 400 rooms, a shopping mall and a recreation hall.

Construction of a large, unified system that is centered around an exhibition such as this is a first in Fujian. Construction and business will be simultaneously done because the project is divided into four phases. This is beneficial to the recovery of funds and improving the fund utilization rate.

The last thing he pointed out was that construction of the exhibition city provides a channel to expand international economic and technological exchanges as well as mutual understanding and cooperation between countries.

In attendance at yesterday's reception and cocktail party for journalists were: Zou Erjun /6760 3643 0971/, mayor of Xiamen; Jiang Ping /3068 1627/ and Zhang Qihua /1728 0366 5478/, deputy mayors; and Chen Jinyou /7115 6855 7921/ and Feng Qing'en /7458 1987 1869/ from Hong Kong.

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CSO: 4006/101

5 April 1985

## HONG KONG MEDIA ON CHINA

## CHINA ISSUING BONDS AND INVESTING OVERSEAS

Hong Kong TA KUNG PAO in Chinese 11 Nov 84 p 2

/Article: "China Issues Bonds Overseas and Foreign Investments"/Text/ Bank of China /BOC/ Issues Bonds in Japan

A signing ceremony was held last week in Tokyo for the BOC's agreement to issue 20 billion Japanese yen worth of bonds in Japan. This is the first time that the BOC has publicly solicited bonds overseas. People in Tokyo's financial circles feel that, "This is a sign that the BOC is actively entering the international capital market." The BOC's international trustworthiness is obvious. It is an outstanding honor for the BOC to receive Japan's highest credit rating, the "AAA."

After only five or so years under the open door policy, China's quick entrance into the international capital market is a major turn of events, since China was a closed country until 1977.

Those who issue bonds overseas must have a high degree of credit and economic power. Furthermore, the bonds must offer a certain amount of interest before they can attract buyers. None of these three conditions can be absent. Previously, Fujian issued Japanese yen bonds in Japan mainly aimed at overseas Chinese and Taiwan compatriots in hopes that they would want to help construct the motherland. At any rate, this is the first time since the country was founded 35 years ago that China issued bonds overseas. It is a tremendously significant undertaking.

This proves that China has entered the international marketplace earlier than expected. In August of this year, the North American economic world's attention was drawn to China International Trust and Investment Corporation's /CITIC/ investment in a factory in western Washington state. The first part of the loan was paid 5 days after the agreement was signed. This is an expression of China's developing interest in overseas resources. There were also developments in the talks between China and Australian businessmen regarding investment in Australian mines and the iron and steel industries.

## Investment in North American Forestry Resources

Why does China want to invest in the development of resources overseas? Because the world's resources are unevenly distributed. Regardless of a country's size, all countries have a hard time being 100 percent resource sufficient. In the wake of progress in China's economic development, China needs some important resources that she lacks and hopes to find stable overseas supplies. Thus overseas investment is necessary. Min Yu [7036 6276], general manager of CITIC, revealed that during a trip to the United States and Canada in August of this year, a delegation from the company studied and discussed the North American forestry and pulp industries and phosphorous, potassium and copper mining resources and markets. They hope to conclude two or three additional foreign investment projects before year end. In sum, during the past year China has invested in, developed resources or talked about cooperation projects regarding critical technology, shipping and consultancy services, insurance, etc., with 20 or so countries such as the United States, Canada, Japan, France, Australia, Thailand and Nigeria. A fraction of the enormous change can be seen when China, which has been closed for so long, invests in North America all of a sudden.

After Chancellor Kohl of West Germany came to China this summer, China stressed preparations for building a "Western European China Trade Center" in West Germany's largest commercial city, Hamburg. Although the center is located in Hamburg its scope of business extends to all the countries of western, northern, and southern Europe. The center is an economic entity of the people. Its aim and duty are to promote various Sino-Western European cooperative business matters. The trade center will set up a certain number of specialized commodity departments and regional business branches. It will open for business early next year.

That China is totally courageous in her steps to open to the outside world today is seen by two facts. On the one hand the 14 coastal cities, 4 special economic zones, and Hainan Island administrative area are all in Hong Kong negotiating the introduction of foreign funds and the development of cooperation. On the other hand China is issuing stocks overseas and directly investing in foreign resources.

## Japan Interested in Investing in and Developing Dalian

Sino-foreign cooperation takes many forms under the open door policy. For example, the Japanese economic world recently observed the opening of the 14 coastal cities and set up an organization to prepare a "Dalian Economic Development Cooperative Association," taking the Dalian area centered around Liaoning as northeastern China's door to the outside world. Seizaburo Hayao, a consultant to the Industrial Bank of Japan, is the representative sponsor. Participating sponsors include three Japanese-China trade groups, the Japanese-Chinese Economic Association, the International Trade Promotion Council, and the Japanese-Chinese Economic Trade Center as well as five economic research organs. There are 46 members now. It is estimated that this figure will increase to 100 to 150 within the year. When the time comes, a formal founding meeting will be held. This is the first such three-in-one collective trade

group, research unit, and large enterprise targeted upon a particular area for cooperation; it is a new form of cooperation.

In China proposals for opening stock markets, freely allowing state enterprises to issue stocks to the people, and proposals for accumulating funds to expand one's own equipment supplies and make investments are turning from theory into practice right now.

In the Shenzhen SEZ, Guangzhou, and the nearby city of Foshan, such things as "workers raising money by floating shares" and "public shares floated to raise capital" have actually appeared. In June of this year the Foshan City Trust and Investment Co in Guangdong began issuing stocks. In less than 20 days they took in more than 5 million yuan. The money paid for these shares came from China's 27 provinces and municipalities and almost 100 groups and individuals.

#### Stocks Go On the Market and Gather Funds From the People

It is not surprising that attention was drawn to some enterprises in Guangdong that allowed workers to buy shares of some stocks issued at 50 yuan per share with a half-yearly interest dividend of more than 9 yuan per share. Recently the Guangdong Trade Development Corp accumulated funds from many channels. Subscribers were very enthusiastic about stocks sold in the city priced at 100 yuan per share.

Facts prove that issuing stocks is an effective way for an enterprise to gather funds. Provided that a perfect system is set up whereby the investor has lawful guarantees, China's stock market will be not only operable but can attract foreign investors.

Chinese economists are presently exploring the establishment of a stock exchange and are urging that the stocks of companies with the conditions to do so put stocks on the market. Some people suggest that there could be two kinds of Chinese stocks: type A, sold locally and type B, offered to foreigners. The crux of the matter is whether a company has profits, whether the investor can be reasonably protected by law and whether speculation can be prevented.

In many respects, China's present open and flexible policies are based on whether they can make the country's economy flourish and whether they improve the prosperity of the state and the people. We basically pay no heed to those accustomed to the "leftist" point of view who criticize this as some kind of "restoration of capitalism" and other rubbish. Practice is the only criterion for judging truth. The 1 billion Chinese people are the true masters. They endorse the 3d Plenary Session of the 11th Party Central Committee's line of opening to the outside world in economic terms and enlivening the domestic economy. China will boldly surge ahead with confidence.

A variety of China's current economic activities are heartening. Various countries, from the United States, Europe and Japan, on down to third world countries in Eastern Europe, and North Korea, have expressed praise for, interest in and close observation of China's economic policies. If you want to talk about what kind of contribution China can make to today's world, it will be hard to estimate the influence of China's policies of "one country, two systems" and the open economy.

HONG KONG MEDIA ON CHINA

HE CHUNLIN TALKS ABOUT PROTECTING FOREIGN INVESTMENTS

Hong Kong TA KUNG PAO in Chinese 14 Nov 84 p 5

/Article: "He Chunlin, Director of the Office of Special Zones, State Council, Says in Hong Kong: 'China Guarantees Safety of Foreign Investments, Wants Foreign Businessmen to Earn More Money; Open Coastal Cities Are Accelerating Capital Construction and Improving Investment Environment; China Striving to Perfect Economic Laws, More Than 40 Foreign Economic Laws and Regulations Formulated; Currently Formulating Laws For Entirely Foreign-owned Enterprises, Contracts, Leasing, Etc.; China a Good Place For Investment, Welcomes Customers'"

/Text/ In an interview today with this wire service, He Chunlin /0149 2797 7207/, director of the State Council's Office of Special Zones, said that China is making efforts to improve the investment environment in the open coastal cities. Infrastructure construction is being speeded up while various foreign economic laws are being perfected so as to ensure the safety of foreign business investments in China and allow foreign businessmen to earn more money under conditions of equality and mutual benefit.

He Chunlin pointed out that there are presently more than 1,000 Sino-foreign cooperative enterprises and nearly 400 joint ventures. The majority of them are running well, business is developing quickly, and clear results have been achieved. This proves that foreign businessmen investing in China can plan for profits. Regarding the investment environment, the newly opened coastal cities all have definite bases, but they are unequal and deficiencies exist. Businessmen are most concerned about transportation and telecommunications problems. The state supports quick resolutions in each area.

Aviation: The Dalian Airport is being expanded. After the work is completed next year it will be able to handle long distance international lines. Although Tianjin is not opening an international line, it already has a large airport that could be put into service at any time. Qinhuang Dao Island, Yantai, Lianyungang, Nantong and Ningbo decided to utilize their original military airports to develop civil aviation. Preparations are underway for expanding Zhenjiang Airport in the near future. As for Beihai and Wenzhou, which still have not opened airports, small ones are under planning in cooperation with the state. Specific plans are under study and being formulated.

Roads: The Dalian to Shenyang roadway will be turned into a super highway. Wenzhou is gathering funds to build a railway to Jinhua. Beihai is both stressing completion of the railway that is under completion from Nanning to Fangcheng and also turning the existing roads into second grade highways.

Ports: The 14 open cities account for 97 percent of China's freight handling capacity. Present efforts are directed towards solving the problems of ancillary facilities like warehouses, railways and highways. Resolution of these questions will allow great improvements in freight handling capacities.

Telecommunications: The state is allocating special funds to solve telecommunications problems in the 14 open cities. Next year long distance trunk lines will be basically completed. Intracity phone service will be constructed utilizing foreign exchange allocated to each city by the state. It is expected that there will be a relatively large change in the appearance of telecommunications facilities in every open city by the end of next year.

He Chunlin said that the state's policy is that all transportation, telecommunications and energy facilities needed to develop foreign economic and technical cooperation for the open coastal cities, SEZs and Nanhai Island have been brought into the State's construction plan and we must strive to finish these projects ahead of schedule. As for those projects that are not in the state plan, we must strive to put them in and think of ways to raise funds for them.

He Chunlin feels that the state has spent a lot of effort on the question of economic laws. In the past 5 years China has formulated 40-odd foreign economic laws. There basically are laws that can be followed but they must be continuously perfected and made specific. We are presently formulating laws and regulations for enterprises that are entirely foreign owned, economic contracts involving foreigners, company organization, technology imports, leasing, etc. Such laws and regulations at the national level fully take care of and protect the rights and interests of foreign businessmen and are suited to China's application of international legal principles and practices. They will greatly promote the work of introducing foreign funds in the open cities.

Regarding the proportion of joint venture goods to be sold on the domestic market, He Chunlin says that China's markets naturally want to open to Sino-foreign joint ventures and entirely foreign owned enterprises but the degree of openness depends on how advanced the imported technology is. We can use the "foreign goods" produced by joint ventures as substitutes for imported foreign goods. Where the majority of spare parts used by joint ventures are made in China, the proportion of goods sold in China can be rather high. In this regard, the concerned departments are studying the formulation of specific methods to be used in practice.

He Chunlin pointed out that the so-called further opening in brief means having more authority at home and offering preferences to foreigners. At the same time we must perfect the investment environment, perfect economic laws and regulation and specifically guarantee the lawful interests of foreign businessmen. We have adopted a series of preferential policies for use by foreign businessmen investing in China while expanding the examination and approval

jurisdiction over economic activities in the open cities so that they can seize opportunities and quickly develop foreign economic and technological cooperation. Of course, each area should reduce levels and links and simplify procedures to improve work efficiency.

To summarize, He Chunlin said that businessmen from Hong Kong and abroad and overseas Chinese are welcome to invest in China. China is a good site for investment and her door is wide open.

12615

CSO: 4006/101



HONG KONG MEDIA ON CHINA

BRIEFS

HONG KONG INVESTMENT CONFERENCE--The first stage of negotiations ended yesterday at China's largest single investment promotion activity--the Chinese Open City Investment Negotiations Conference held in Hong Kong (starting 15 November, negotiations that are still in progress will be arranged by groups individually). The results were gratifying according to incomplete statistics. Various Chinese open cities, SEZs and Hainan Island have signed 443 contracts, agreements, letters of intent or memos with businessmen from abroad, Hong Kong and Macao in the first stage of negotiations that lasted 6½ days. The total investment sum involved was \$1.23 billion (approximately HK\$33 billion), greatly surpassing the predictions of the organizers. At 3:30 pm 15 November, Wei Yuming, leader of the overall delegation and a vice minister of the Ministry of Foreign Economic Relations and Trade, will host a reception for reporters on the 50th floor of the Huarun Mansion to talk about this conference. In the last few days, 19 negotiating teams from China's 14 open cities, the 4 SEZs and Hainan Island met and negotiated with more than 7,800 businessmen from overseas, Hong Kong and Macao. Increasing mutual understanding and friendship, they introduced China's present policy of opening to the outside world, plus each area's investment environment and trends for development. [Text] [Hong Kong WEN WEI PO in Chinese 15 Nov 84 p 4] 12615

CSO: 4006/101

HONG KONG ECONOMIC TRENDS

NEW INVESTMENT COMPANY LAUNCHED IN HONG KONG

OW120137 Beijing XINHUA in English 1556 GMT 11 Mar 85

[Text] Hong Kong, 11 Mar (XINHUA)--The Hong Kong-Macao International Investment Company was inaugurated here today following a year's preparation.

With a registered capital of 500 million H.K. dollars (about 170 million yuan), the company will invest mainly in Hong Kong and Macao and cooperate with other international consortiums in investing on the Chinese mainland.

It will also enter into joint investment with Chinese businesses in Hong Kong and Macao and other parts of the world.

In addition, the company plans to open an independent regional or a joint venture airline company in Hong Kong.

The company was established jointly by the Bank of China, China resources group and China Merchants Steam Navigation Co. Ltd.--Chinese organizations based in Hong Kong--and entrepreneurs and business chiefs from Hong Kong, Macao, Singapore and Malaysia.

At the first meeting of the board of directors today, officials pledged to do their best to contribute to the further economic prosperity of Hong Kong and Macao.

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HONG KONG ECONOMIC TRENDS

HONG KONG, MACAO BUSINESSMEN PLAN REGIONAL AIRLINE

Hk120327 Hong Kong SOUTH CHINA MORNING POST in English 12 Mar 85 Business News Supplement p 1

[By Olivia Sin]

[Text] The Hong Kong Macau International Investment Co, which is backed by Chinese interests and local Hongks, is considering setting up a Hong Kong-based regional airline to serve Chinese cities.

The formation of such an airline could have wide-ranging implications for Hong Kong's aviation industry after 1997.

As opposed to Cathay Pacific, which has a strong British shareholding, the airline will be owned only by Hong Kong and China interests.

The investment firm, which was inaugurated yesterday, will have a registered capital of \$500 million, divided into 5 million shares of \$100 each.

Its shareholders comprise about 40 businessmen from Hong Kong, Macau and Southeast Asia, include Mr Henry Fik, Mr T.K. Ann and Mr Fung King-hei.

Corporate shareholders include Cheung Kong (Holdings) Ltd, Hutchison International Ltd, Kowloon Wharf (Niminees Ltd and Novel Enterprises Ltd, a local textile firm.

Novel Enterprises, which is chaired by prominent industrialist Mr Chao Kuangpiu, is the biggest shareholder with a 26 percent stake.

The company's first board meeting was held yesterday during which the vice-chairman of the Bank of China, Mr Jiang Wengui, was elected chairman.

Mr Chao, also a director and general manager of the new investment company, told reporters after the meeting that the company will invest in any "profitable" business which will also promote the prosperity of Hong Kong.

One of the projects being considered by the company is the formation of a Hong Kong based regional airline either as a wholly-owned subsidiary or as a joint venture with "appropriate parties," he said.

Asked if the company is interested in building the second cross-harbour tunnel, he said such a possibility will not be ruled out.

Mr Chao envisaged that the regional airline will operate short-haul routes to China, with the flight time ranging from 1 to three hours.

Asked if the company is interested in cooperating with Cathay Pacific Airways (CPA), he said it is too early to comment.

It is not known whether the investment company will approach Orient Pearl Airways Ltd, a locally-owned airline which is planning a comeback, for cooperation.

Orient Pearl, principally owned by the Chan family, recently applied to the Civil Aviation Department for permission to operate passenger and cargo services from Hong Kong to the United States and Britain.

Mr Chao said the new company will invest both in Hong Kong, Macau, China and overseas countries.

It will also function as a bridge and a partner for foreign investors who wish to invest in China.

"Joint ventures with Chinese corporations to invest in Hong Kong and Macau as well as in other countries will be an important sector of the company's business in the coming years," he added.

Mr Chao said the firm might go public after it has acquired a sound business base.

Major shareholders of the company are the Bank of China group which holds a 20 percent stake, the China Resources (Holdings) Co Ltd (16 percent) and the China Steam Merchants Navigation Co Ltd (4 percent).

CSO: 4020/153

HONG KONG ECONOMIC TRENDS

HONG KONG TRADE DIRECTOR ON TEXTILE TALKS WITH U.S.

HK160532 Hong Kong SOUTH CHINA MORNING POST in English 16 Mar 85 Business Post Supplement p 1

[text] The speed with which the local knitwear industry is able to adjust to the U.S. country-of-origin rules is now the chief concern of the government.

During a 3-day meeting in Washington, the United States has again refused to back down on its textile controls which affect Hong Kong's knitwear industry.

The failure of the latest round of talks may mean Hong Kong will turn again to the Textile Surveillance Body (TSB).

The director of trade, Mr Hamish Macleod, who led the delegation to the talks, said in a statement issued from Washington that the United States had refused to allow Hong Kong time to adjust to the new rules which take effect from 4 April.

Hong Kong industrialists, fearing that the United States would not budge, had earlier asked the government to negotiate for a 1-year grace period.

Said Mr Macleod: "The talks confirmed our fears that the United States has no intention of softening the effect of the final regulations on Hong Kong's knitwear industry.

"Even our proposal that transitional arrangements to give the industry time to adjust, under protest, brought no positive response," he added.

The talks followed talks last month after the TSB ruled that the U.S. action "has upset the balance of rights and obligations" under the bilateral agreement.

But, during the talks, Mr Macleod said the United States showed no intention of heeding the TSB ruling, nor was it interested in Hong Kong's proposals.

Nevertheless, Hong Kong made it clear the territory did not accept that the United States had the right to make unilateral changes to the origin rules, he said.

He said the Americans were told Hong Kong reserved its rights under the bilateral agreement, the Multi-Fibre Arrangement (MFA) and the General Agreement on Tariffs and Trade, and would continue to argue its case.

Mr Macleod said: "Our main aim now must be to ensure our industry is put in the best position to adjust quickly to the new situation," adding that there was a time limit to how long Hong Kong's industry could be expected to continue to operate under two sets of rules.

The government has said it will consider changing its own country-of-origin rules in order to suit the new situation.

Under current rules, Hong Kong issues a certificate of origin for sweaters assembled in Hong Kong from Chinese parts and are then exported to the United States under Hong Kong's quota. This is in accordance with the old U.S. rules.

Mr Macleod said the government would not consider the implications of the situation in consultation with the industry and the Textiles Advisory Board.

He believed about 70 percent of sweater exports to the United States would be affected by the new rules.

CSO: 4020/153

HONG KONG ECONOMIC TRENDS

HONG KONG'S HI-TECH SALES TO PRC INCREASE DRAMATICALLY

HK150545 Hong Kong SOUTH CHINA MORNING POST in English 15 Mar 85 Business News Supplement p 3

[Text] Hong Kong's exports in China of office machines and data processing equipment rose by a staggering 2,579 percent--an increase of \$405 million in value terms in January compared with the same period last year, according to the Census and Statistics Department.

The huge increase reflected China's burgeoning interest in automation products.

Most commodities exported to China, particularly high-technology goods, showed large increases in value.

China was by far the largest growth market for Hong Kong's exports, up 11 percent to \$1.41 billion. Exports of telecommunications and sound recording and reproducing equipment increased \$158 million or 167 percent, and electrical machinery, and appliances and associated electrical parts, \$75 million or 232 percent.

Decreases in exports to China were shown in the more traditional industries, such as metalliferous ores and metal scrap, down \$3 million or 77 percent, and feedstuff for animals, down \$2 million or 38 percent.

Hong Kong's overall merchandise trade in January increased 20 percent to \$39.24 billion compared with the same period last year.

Merchandise trade consists of domestic exports, which rose 3 percent to \$11.16 billion, imports, up 20 percent to \$19.12 billion and re-exports, up 50 percent to \$8.96 billion. Domestic exports and re-exports together increased 20 percent.

Total domestic exports to the United States rose by less than 1 percent in value.

Analysed by commodities, increases were recorded mainly in clothing, up by \$211 million or 11 percent, baby carriages, toys, games, and sporting goods, by \$25 million or 7 percent, and electrical machinery, apparatus and appliances, and electrical parts, by \$13 million or 3 percent.



Decreases were recorded in telecommunications and sound recording and reproducing equipment, down \$97 million or 23 percent, and office machines and automatic data processing equipment, down \$92 million or 24 percent.

Increases in domestic exports to the UK were registered for clothing, up \$29 million or 9 percent, metalliferous ores and metal scrap, \$21 million or 94 percent and printed matter, \$5 million or 35 percent.

Decreases were recorded in textiles, down \$33 million or 55 percent, and telecommunications and sound recording and reproducing apparatus and equipment, down \$23 million or 46 percent.

Imports from China were most buoyant in the clothing sector, up \$157 million or 23 percent, textile fibres and their wastes, \$99 million or 80 percent, baby carriages, toys, games and sporting goods, \$53 million or 11 percent, telecommunications equipment and sound recording and reproducing equipment, \$51 million or 59 percent, and travel goods, handbags and similar containers, \$47 million or 53 percent.

Imports from Japan of telecommunications and sound recording and reproducing apparatus and equipment rose \$248 million or 82 percent, and road and air cushion vehicles, \$205 million or 96 percent. Decreases were shown for crude animal and vegetable materials, down \$20 million or 48 percent, and iron and steel, down \$15 million or 7 percent.

Office machines and data processing equipment proved the most buoyant imports from the United States showing a \$121 million or 68 percent increase. Tobacco and tobacco manufactures rose \$97 million or 85 percent, and manufactures of metal, \$58 million or 234 percent.

Decreases were shown in organic chemicals, down \$43 million or 50 percent, and electrical machinery, apparatus and appliances, and associated electrical parts, down \$33 million or 10 percent.

Decreases were registered in imports from Taiwan of vegetables and fruit, \$19 million or 42 percent, and imports from Singapore of transport equipment, other than road and air cushion vehicles, \$28 million or 99 percent.

Imports of textiles from Taiwan increased \$156 million or 27 percent, as did imports of petroleum, petroleum products and related materials from Singapore, by \$179 million or 35 percent.

CSO: 4020/153

END